

SECTION II – SPECIFIC COMPLIANCE**SCHOOL DISTRICT BOOKKEEPING**

The State Board of Education has, in accordance with law, prescribed a uniform double-entry system of bookkeeping for use in all school districts and is authorized to compel its use. (*N.J.S.A.* 18A:4-14 and *N.J.A.C.* 6A:23-2.1)

The Uniform Minimum Chart of Accounts (Handbook 2R2), also known as the H2R2, was published in 1992, and thereafter has been updated through annual revisions to the budget guidelines and as well as general accounting memos. During December 2003, a revised chart of accounts was issued, effective July 1, 2004, and in part reflects necessary changes for reporting under the GASB 34 financial reporting model.

GASB 34 distinguishes between funds which benefit the district (Permanent funds) and those for which the district acts as a trustee or agent, but where the resources benefit other governments, individuals, or organizations (Trust or Fiduciary funds). Permanent fund accounting should be in the existing fund 60, Trust and Agency Funds. When the district uses the reimbursable or pay as you go method for unemployment, the Unemployment Compensation Trust would be included here. Also, the resources and changes in net assets of a private purpose scholarship fund would be reported here. These funds are not included in the accrual level statements (A - series). Expendable trusts that benefit the district should be included in the special revenue fund.

The account groups, General Fixed Assets – GFAAG (Fund 80) and General Long-term Debt – GLTDAG (Fund 90), should have been maintained during the 2003-04 fiscal year for record keeping purposes. The balances of those Groups are incorporated into the district-wide financial statements.

The following is a listing of funds using the GASB 34 reporting model under the current chart of account structure for 2003-04:

Governmental Funds

Fund 10 (General fund)

Fund 20 (Special revenue fund)

Fund 30 (Capital projects fund)

Fund 40 (Debt service fund)

Fund 60 (Permanent fund)

Proprietary funds

Fund 50

Enterprise fund

Internal service fund

Fiduciary funds

Fund 60 (Private purpose trust and agency funds)

Fund 70 (Student activity funds)

SECTION II – SPECIFIC COMPLIANCE
FUND 10 –GENERAL FUND

Board Secretary and Treasurer Reports

In accordance with *N.J.S.A.* 18A:17-9, the board secretary shall report to the board at each regular monthly meeting the amount of total appropriations and the cash receipts for each account, and the amount for which warrants have been drawn against each account and the amounts of orders or contractual obligations incurred and chargeable against each account since the date of the last report. At the close of each fiscal year, the board secretary shall present to the board a detailed report of its financial transactions during such year and file a copy with the county superintendent on or before August 1 of each year.

In accordance with *N.J.S.A.* 18A:17-36, the treasurer shall report to the board monthly a detailed account of all receipts, the amounts of all warrants signed by him/her since the date of the last report and the accounts against which the warrants were drawn, and the balance to the credit of each account. At the close of each fiscal year, the treasurer shall present an annual report showing the amounts received and disbursed for school purposes during said year and file a copy with the county superintendent on or before August 1 of each year.

The monthly board secretary and treasurer reports are to be reconciled on a monthly basis.

Cash Reconciliation

The cash accounts must be reconciled. Reconciliation of payrolls and bond and interest accounts are to be made in all districts maintaining such accounts and must be permanently recorded and filed for future reference. The auditor must verify the reconciliation of all cash accounts of the school district.

Bank reconciliation statements are not required to be exhibited in the audit report. Workpapers must be available for review upon request.

Petty Cash Funds

N.J.A.C. 6A:23-2.9 states "Pursuant to the provisions of *N.J.S.A.* 18A:19-13, a district board of education or charter school board of trustees may establish on July 1 of each year, or as needed, a cash fund or funds for the purpose of making immediate payments of comparatively small amounts".

To be in compliance with the administrative code, the board must establish the amounts authorized for each fund, and set the maximum allowable individual expenditure. The board must designate custodians for each fund and must establish the minimum time period for the custodian to report on fund activity. Petty cash accounts must be closed out at year-end and unexpended cash deposited in the bank by June 30th.

SAS #70 Reports

Depending upon the nature of the services provided, AICPA Statement on Auditing Standards No. #70 (as amended by SAS #88) reports may be required from software vendors, payroll service vendors, and other service organizations. SAS #88 clarified SAS #70 by stating that SAS #70 is applicable if an entity obtains services from a service organization that are part of the entity's information system. SAS #88 explains what constitutes "part of the entity's information system". If SAS #70 is applicable, the service organization auditor will issue one of the following two types of reports, depending upon circumstances and requirements:

- Type I – Report on policies and procedures placed in operation. This report may be an effective and efficient way for the district auditor to gain an understanding of the internal controls of the service organization.
- Type II – Report on policies and procedures placed in operation and tests of operating effectiveness. This report includes a description of the tests of operating effectiveness and the results of those tests. If the controls are present and operating effectively, the district's auditor may choose to assess control risk below the maximum for financial statement assertions related to the service organization transactions. This is a decision made by the district auditor.

Auditors are advised to review Chapter 4, Field Work Standards for Financial Audits, of the Government Auditing Standards (Yellow Book 2003 Revision) available electronically at the web site <http://www.gao.gov/index.html> for further guidance on internal controls.

Third Party Disbursements

N.J.S.A. 52:27D-20.1 Contracts for third-party disbursement services, gives the Local Finance Board, in consultation with the Commissioner of Education, the authority to adopt regulations permitting district boards of education to contract with third-party disbursement service organization in order to make payments and execute financial transactions for those purposes.

The rules on third party disbursements were approved and are effective May 19, 2003 and found in *N.J.A.C. 5:30-17 et seq.* District boards of education are advised to review the rules prior to engaging a third party disbursement service organization. *N.J.A.C. 5:30-17 et seq.*, Electronic Disbursement Controls for Payroll Purposes can be found at <http://www.nj.gov/dca/lgs/rules/rulesmenu.shtml>.

Investments

Several statutes govern permissible investment of school monies by New Jersey school districts. *N.J.S.A. 18A:17-34* gives the treasurer of the school district the authority to deposit school moneys in any bank or banking institutions of this State designated as a depository of school monies. Under *N.J.S.A. 17:9-41 et seq.*, the Governmental Unit Deposit Protection Act (GUDPA), a school district may deposit public funds in a public depository if such funds are secured in accordance with GUDPA. This statute defines a public depository as:

“a State or federally chartered bank, savings bank or an association located in this State or a state or federally chartered bank, savings bank or an association located in another state with a branch office in this State, the deposits of which are insured by the Federal Deposit Insurance Corporation and which receives or holds public funds on deposit.”

N.J.S.A. 18A:20-37 provides for the specific types of securities that the board of education can authorize to be purchased and sets forth general investment practice requirements. It also provides for the specific types of securities which may be purchased and registered in a school district's name. While the types of securities and requirements are too extensive to list, the statute includes governmental money markets funds and bonds or other obligations having a maturity date of not more than 397 days from the date of purchase, approved by the Division of Investments in the Department of Treasury for investment by school districts. The Division does not publish a listing of approved investments but districts may request approval of a specific security by sending a letter to the following address:

Director
Division of Investments
P.O. Box 290
Trenton, NJ 08625

The Department of Education does not have the authority to determine compliance with GUDPA or review and approve the types of securities a school district can utilize. Districts should consult with their legal counsel and direct any questions on the permissibility of a specific security pursuant to N.J.S.A. 18A:20-37 to the Division of Investments in the Department of Treasury at the above address.

Further information on GUDPA or on banking institutions may be found at the department of Banking and Insurance web site <http://www.state.nj.us/dobi/gudpa.htm>. A school district which is unsure as to whether the bank/institution is certified as a depository should request from the bank/institution a copy of the "Notification of Eligibility" or may contact the Department of Banking and Insurance.

Districts were required to implement GASB Statement No. 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools," effective for fiscal year end June 30, 1998. This statement establishes fair value accounting and financial reporting standards for certain types of investments held by governmental entities other than external investment pools. This should have a limited impact on school districts. For government entities other than external investment pools, this statement establishes accounting and financial reporting standards for the following investments: participating interest-earning investment contracts, external investment pools, open-end mutual funds, debt securities, and equity securities, option contracts, stock warrants and stock rights that have readily determinable fair values.

The implementation of GASB Statement No. 31 did not supersede the required disclosures included in the CAFR in accordance with GASB Statement No. 3, "Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements". It represents a change to the method at which investments are valued for accounting and financial reporting and provides for additional disclosures regarding the valuing of investments.

GASB 40, "Deposit and Investment Risk Disclosures, an amendment of GASB Statement No. 3" is effective for financial statements for periods beginning after June 15, 2004 (i.e., for 2004-05 school fiscal year) and states:

"...disclosures generally referred to as category 1 and 2 deposits and investments are eliminated. However, this Statement does not change the required disclosure of authorized investments and it maintains, with modification, the level-of-detail disclosure requirements of Statement 3." Statement 40 is designed to inform financial statement users about deposit and investment risks that could affect a government's ability to provide services and meet its obligations as they become due. The reduction of existing custodial credit risk disclosures follow from federal banking reforms adopted since the release of Statement 3.

Revenues and Receipts

Revenues accruing to the board of education for the period under audit must be verified. Receipts for the year and accounts receivable at the close of the year must be verified as to source and disposition. Revenues must be delineated by type and recorded in the proper fund. Common revenues and the funds in which they are reported are included in *The Uniform Minimum Chart of Accounts Handbook 2R2 for New Jersey Public School Districts (H2R2)*, as amended by CEIFA and in the Budget Guidelines. The auditor must comment in detail on any irregularity in the method of handling receipts and revenues as a result of audit tests performed.

Extraordinary Aid

Districts that received notification of their approval to receive 2003-04 Extraordinary Aid in accordance with CEIFA are directed to recognize the approved amount as Other State Aid (10-3190) during the 2003-04 fiscal year and establish a corresponding receivable, as actual payment is not expected to occur until after June 30, 2004 (*N.J.S.A.* 18A:7F-7F-19(c)). This amount can be excluded from the June 30, 2004 excess surplus calculation only if the district can clearly document that they did not budget this additional aid during the 2003-04 fiscal year for which they filed an application. Generally this exclusion from the excess surplus calculation will require the district to experience unique circumstances surrounding the expenditure of these funds.

The exclusion of extraordinary aid from the audited excess surplus calculation should be documented on the "Extraordinary Aid Adjustment" line. This will also require the submission of a detailed letter explaining the circumstances for the exclusion and if applicable, how it relates to the appearance of the excess surplus warning message on the Audit Summary (Audsum) Worksheet transmittal form.

In addition to the 2003-04 extraordinary aid, districts were notified in July 2003 of additional extraordinary aid as shown on Line (F) of the 2002-03 revised state aid print out. The 2003-04 State Budget indicates that districts must use this additional extraordinary aid for property tax relief in either the 2003 or 2004 local tax year, which refers to either the 2003-04 or 2004-05 fiscal year. Districts were instructed, per a July 25, 2003 Department letter to record the additional extraordinary aid as revenue (Other State Aid 10-3190) in 2003-04, regardless of which year the property tax reduction occurred. (July 2003 letter is available at <http://www.nj.gov/njded/finance/fp/af/extraordinaryaid.pdf>).

- Districts which still had the option to revise their A4F and recertify their 2003-04 tax levy, were permitted to revise and retransmit the revised 2003-04 budget reflecting the additional aid and lower tax levy.
- Districts that were unable to achieve property tax relief in 2003-04 were instructed to record the additional aid as revenue in 2003-04 without any corresponding increase in appropriations. The surplus created by the additional revenue must be reserved and designated for tax relief (general fund or debt service fund) in 2004-05. This is in addition to the normal excess surplus calculation.
- Districts at the minimum tax levy in 2003-04 were instructed to record the additional aid as revenue in 2003-04, let it lapse to surplus and designate it for tax relief in 2004-05.

Extraordinary aid applications are made online, with the department's determination of aid based on the submitted application. Audit procedures, similar to the ASSA, and can be found in the State Aid/Grants Compliance Supplement at: <http://www.nj.us/treasury/omb/publications/grant/pdf/educ.pdf>.

District Taxes

District taxes must be recorded in the fund for which they were voted (Type II) or were certified by the Board of School Estimate (Type I). Additional amounts certified to the county board of taxation after the issuance of tax bills by the municipality will be shown as an adjustment on the district's subsequent year's certificate and report of school taxes. These adjustments are generally the result of Commissioner restorations for budget appeals and/or additional certifications for unanticipated debt service expenditures. These additional certifications should be reported as revenue via the accrual of a tax levy receivable.

N.J.S.A. 54:4-75 states, "The governing body of each municipality shall pay over to the Treasurer of School Moneys, in the case of school districts in which appropriations for school purposes are made by the inhabitants of the school district, within forty days after the beginning of the school year, twenty

percent (20%) of the appropriation for local school purposes, and thereafter, but prior to the last day of the school year, the balance of the moneys raised in the municipality for school purposes in such amounts as may from time to time be requested by the Board of Education, within thirty days after each request."

The auditor should comment on any uncollected taxes as of June 30th (other than the special accruals referred to above), and make a recommendation that the board of education request the remittance of the balance from the municipality.

Tuition (*N.J.A.C. 6A:23-3.1*)

Tuition revenue is recorded in the general fund. The procedures for determining tuition rates are detailed in *N.J.A.C. 6A:23-3.1*. Because it is "measurable and available" the entire tuition charged for the school year is revenue of the year even though part of the charge is uncollected at year-end. Tuition or program fees should not be charged for accredited Adult Education programs operating for the purposes outlined in *N.J.S.A. 18A:50-12*, since pupils enrolled in such programs are included on the Application for State School Aid. Fees collected for non-accredited Adult Education programs are miscellaneous general fund revenue, not tuition.

Local school district auditors must compare tentative tuition charges in the current fiscal year to the rate certified by the Department of Education. The auditor must comment on whether appropriate billing adjustments have been made for the differences between tentative and actual charges. The tuition adjustments made in 2003-04 would relate to the certification of 2000-01 rates for regular tuition. Consult *N.J.A.C. 6A:23-3.1(e)*. Auditors should also consult NJ DOE Policy Bulletin 100-1 issued in December 1993 (Resource Room Tuition). Local school district auditors must consider *N.J.A.C. 6A:23-3.3* for auditing tuition rates for county vocational schools; and *N.J.A.C. 6A:23-3.4* for auditing rates for county special services schools when these types of LEAs are audited.

Local school district auditors must perform procedures to determine that the following requirements are met:

1. The district used the Budget Software tuition worksheet (only applicable to regular districts) or another Department of Education prescribed method for estimated tuition charges (Estimated Cost Per Pupil for Tuition Purposes).
2. Receivables and/or payables are based upon uncollected tuition billed.
3. Regular tuition adjustments based upon Department of Education certification of rates are not recognized as revenue and/or expenditures until the third year after the contract year and that the tuition adjustments are correctly reflected in the amounts reported as tuition revenue (receiving district) or tuition expenditures (sending district).
4. If at the end of the contract year a district board of education anticipates that a large tuition adjustment will be required in the third year following the contract year, the district board of education may restrict fund balance up to 10 percent of the estimated tuition cost in the contract year, in a legal reserve for tuition adjustments. Full appropriation shall be made in the third year and any remaining balance shall be reserved and designated in the subsequent year's budget. (*N.J.A.C. 6A:23-3.1(f)(8)*). (See the section in this Audit Program on Excess Surplus.) The 2004-05 budget year will be the first year districts are permitted and required to withdraw and budget 2001-02 funds reserved in the tuition reserve account for the actual 2001-02 certified tuition rate adjustments. The money was reserved in 2001-02 based on an estimated tuition adjustment in 2004-05. Districts may not withdraw and budget funds from the tuition reserve prior to 2004-05.

Local school district auditors must make appropriate comments and recommendations for any findings related to these procedures.

Reporting On-Behalf Payments

GASB Statement No. 24 requires that an employer government recognize revenue and expenditures for on-behalf payments for fringe benefits and salaries. On-behalf payments for fringe benefits and salaries are direct payments made by one entity (the paying entity or paying government) to a third-party recipient for the employees of another legally separate entity (the employer entity or employer government). In applying this accounting directive in New Jersey, districts are required to include in their CAFR as both a revenue and expenditure both the pension contributions made directly to the TPAF by the state on their behalf, as well as the reimbursed social security amounts related to its employees that are TPAF members. The sample CAFR reflects the required presentation and the sample pension footnote includes the required disclosures. The department annually provides districts the information on the amounts paid on their behalf for employer contributions to the TPAF. TPAF and social security on-behalf payments are published by district at <http://www.nj.gov/njded/finance/fp/audit/0304/>.

Districts should prepare a schedule of the amounts reimbursed by the state for the current year FICA employer contribution for its TPAF members on an accrual basis. That is, the current year amount equals total cash reimbursement received during the current year less the prior year June 30th receivable amount plus the current year June 30th receivable balance. **The on-behalf payments will be included in the CAFR as non-budgetary revenue and expenditure items, similar to the reporting of assets acquired under capital leases.** Districts are not required to include these amounts in their annual school budgets or monthly reports of the board secretary.

Refunds

Refunds on current year expenditures are a credit to the applicable expenditure line account. Refunds on prior year expenditures, and sales of books and manual training materials and products, are miscellaneous income, not refunds. Proceeds from the sale of land, buildings and equipment are other financing sources.

Telecommunications Act of 1996 – Universal Service Fund (E-rate)

The Schools and Libraries Universal Service Fund, known as the “E-rate” was created as part of the Telecommunications Act of 1996 to provide affordable access to modern telecommunications and information services to all eligible schools and libraries in the U.S. The School and Libraries Corporation (SLC) was established by the FCC to administer the Schools and Libraries Universal Service Fund. All public and private schools and libraries qualify for funding based on their level of economic disadvantage (based on the percentage of students eligible for the national school lunch program) and their location, rural or urban. The offset to the reduction in the expenditure is either to accounts receivable if a refund is due or to accounts payable if unpaid at June 30, 2004. Additional information is available at the Department of Education, Office of Technology website at www.state.nj.us/njded/techno/toc.htm and at the School and Libraries website at www.sl.universalservice.org.

Cancellations

Cancelled prior year contractual orders and canceled prior year tuition receivables are reflected in the audit report as revenues and expenditures, respectively. Cancellations of prior year reserve for encumbrances increase the amount available for expenditure in the current year.

Abbott Parity Remedy Aid

The 2003-04 Abbott v. Burke Parity Remedy Aid for eligible Abbott districts is accounted for in the general fund revenues and appropriations of the district. In accordance with the court decision, the State is required to deduct an amount equal to 2 percent of the district’s Abbott Parity Remedy Aid to support required expenses. The district is required to budget for this purpose in account #11-190-100-800.

Health Insurance Policies

The department issued a hotline concerning audit issues/procedures regarding certain insurance policies held by New Jersey school districts dated August 30, 1995. At that time, we were seeking an opinion from the Office of the Attorney General on questions raised regarding the custody of funds and payment of claims. In response to that request, we were advised that the enactment of Chapter 74, P.L. 1995 authorized school districts to enter into minimum premium insurance policies with insurance companies authorized to do business in the State although those policies may involve different cash management methods than those required by existing statute.

The hotline was issued after review of policy terms and discussions with both public school accountants and insurance company representatives. Based on that review, the following issues were identified:

Districts with minimum premium policies commonly have three accounts with the carrier:

- 1) a termination reserve account
- 2) a claims account
- 3) a premium stabilization account

The termination reserve account generally represents funds earmarked for the district's liability for claims which have been incurred but not reported (IBNR), also known as the "run-off" liability. The IBNR liability amount is calculated annually by the carrier's actuaries and provided to the policyholder. The claims account is used for the payment of claims filed. The contracted monthly premium estimate is deposited into this account. The monthly deposit may or may not include the administrative fee paid to the carrier. In some cases, the fee is a separate remittance. The premium stabilization accounts are used as a mechanism to smooth insurance premium payments. Commonly, any funds remaining in the claims account at the end of the year are transferred to the premium stabilization account for use in future years in the event of "premium" increases. Premium stabilization funds are often attached to participating and fully funded policies in which rebates are based on a retrospective review of claims filed during the policy period. These funds (rebates) are maintained in an account, in the district's name, and are used to smooth future years' premium payments. Payments from these accounts for other than insurance premiums are prohibited and circumvent the budgetary process.

In the past, the aforementioned accounts may have not been reflected in the district accounting records or were inaccurately reported as fund balance. Public school accountants should review the terms of district policies and statements/monthly activity reports issued by the carrier. If the district has a minimum premium policy a confirmation should be issued to the insurance carrier regarding the following:

- The existence of and amount of June 30th balances in accounts in the district's name held on their behalf by the carrier*
- District liability for the IBNR claims at June 30th
- District liability for claims that were filed but unpaid at June 30th
- Composition of the accounts (what are the types of underlying investments made on the district's behalf)*
- Investment income earned during the year on district funds held by the carrier*

Auditors may wish to obtain confirmation from the carrier that the expenditures made from the claims accounts were for valid claims if direct testing is not possible from district records. Items noted with an

(*) should be confirmed in situations where it appears that a premium stabilization account exists under a participating or fully funded policy.

The confirmed information as well as the balances in any accounts related to the policies that are held by the district itself should be used to determine the proper presentation in the CAFR. The assets (total of the June 30th account balances) will be compared to the related liabilities (total of the June 30th IBNR claims and claims in process at June 30th). Any excess assets should be included in the amount reported as unreserved general fund surplus. If the liabilities exceed the assets, the district's unreserved general fund surplus must also be considered. The accrual made for the claims should not put the general fund into a deficit position. That is, the total liabilities should be subtracted from the total of the June 30th unreserved general fund surplus plus the total assets. The amount of liabilities in excess of the total of surplus and assets should be shown as a liability in the district wide *Statement of Net Assets* and the June 30th general fund unreserved surplus reported as zero. For minimum premium policies, the current year expenditures reported for insurance premiums/claims should represent the total of the amount of claims and administrative fees paid in the current year related to the current year, the accrual for the unpaid claims in process, and the change in the June 30th balance in the IBNR liability between the current year and the prior year. For any type of policy, it must not include any excess premium payments transferred to a premium stabilization account.

The funds held by the district or the carrier on the district's behalf are included in the general fund balance sheet as cash, cash equivalents, or investments.

The June 30th general fund accounts payable balance should include the amount of claims in process as of that date. It should not include the IBNR liability. The IBNR liability should be reported in the general fund balance sheet as an accrued liability labeled "Accrued Liability for Insurance Claims".

The notes to the financial statements should clearly disclose the terms of the policies and provide explanations of the related balance sheet accounts.

Sale and Lease-back Contracts

N.J.S.A.18A:20-4.2 authorizes boards of education to enter into sale and lease-back contracts on certain instructional materials (i.e. textbooks). The district can acquire through sale and lease-back textbooks and non-consumable instructional materials provided that the sale price and principal amount of the lease-back do not exceed the fair market value of the textbooks and instructional materials and that the interest rate applied in the lease-back is consistent with prevailing market rates or is less. The lease-back can be for any term not exceeding in the aggregate of five years.

Proceeds from the sale and lease-back of textbooks and non-consumable instructional materials shall not be included in the calculation of excess undesignated general fund balance during the budget year in which they are realized. A board of education may establish a reserve account in the general fund with all or part of the proceeds from the sale and lease-back provided that subsequent appropriations from the reserve account shall only be made within the original budget certified for taxes or as approved by the Commissioner for good cause.

If the board of education establishes a reserve in the year the proceeds are realized, then the calculation of excess surplus will not include the June 30 legally restricted reserve balance in that year and future years. The exclusion of sale and lease-back funds from the audited excess surplus calculation should be documented on the "Sale and Lease-Back" line.

Required Maintenance

Pursuant to *N.J.S.A. 18A:7G-9* and *N.J.A.C. 6A:26A-5.1*, beginning in ten years following enactment of the act, to receive funding under EFCFA districts will be required to demonstrate a net investment in required maintenance of at least 2% of the replacement cost of the related school facility (determined

pursuant to subsection b. of section 7). For new construction, additions, and school facilities aided under the act, beginning in the fourth year after occupancy of the school facility, districts must demonstrate an investment in required maintenance in the prior year of at least two-tenths of 1 percent of the replacement cost of the school facility.

To support the demonstration of this requirement, beginning with data for fiscal year 2000-01, districts must include a schedule of required maintenance expenditures for each year by school facility (as defined under *N.J.A.C.* 6A:26A-1.3) in the CAFR. **This schedule must reflect each year beginning with June 30, 2001 up to ten years.** For reporting 2001 and 2002 required maintenance expenditures (11-000-261-xxx), a district was permitted to allocate the total to each school facility and other facilities by proration according to its gross square footage.

Beginning in 2002-03, districts are required to maintain their accounting records for required maintenance at the school facility level and will be required to “have available the expenditure records, detailed by school facility, for verification by the district auditor beginning in the year 2002-2003” (*N.J.A.C.* 6A:26A-2.2(c)). Auditor verification should include a review of classification of expenditures and documents to support the school level expenditures for object code 261 and random testing of purchase orders/vouchers. Auditors should be aware that salaries split between custodial and required maintenance need “task specific documentation.”

A sample Schedule of Required Maintenance for School Facilities (Exhibit J-1a) is included on the following page. The schedule should indicate the project number(s), if applicable, as assigned by the department upon project approval and determination of preliminary eligible costs (PEC) in the column preceding the current year expenditure. If a district has a school facility for which it has no project numbers, it should indicate “N/A” in the project number column. Required maintenance expenditures for other facilities are reported in the aggregate by year. All district types should complete this schedule. If the district has no school facilities projects, the district should indicate “N/A” on the schedule.

Exhibit J-1a

**ANYTOWN SCHOOL DISTRICT
GENERAL FUND
SCHEDULE OF REQUIRED MAINTENANCE FOR SCHOOL FACILITIES
Last Four Fiscal Years ending June 30, 2004**

**Undistributed Expenditures – Required
Maintenance For School Facilities
11-000-261-XXX**

*School Facilities	Project #'s	2001	2002	2003	2004	Total
Building A	N/A	\$ 34,092	\$153,523	\$117,980	\$ 65,980	\$ 371,575
Building B	1800-055-R01, SP200403	35,115	158,129	121,519	67,959	382,722
Building C	Various	45,500	125,000	250,000	58,700	479,200
Building D	0570-030-R01	48,300	165,000	189,000	75,000	477,300
Total School Facilities		\$163,007	\$601,652	\$678,499	\$267,639	\$1,710,797

*School facilities as defined under EFCFA.
(N.J.A.C. 6A:26-1.2 and N.J.A.C. 6:24-1.3)

Restricted Appropriations/Balances

Under current New Jersey Administrative Code, budgeted appropriations are deemed restricted when associated with a capital outlay spending growth limitation adjustment (SGLA) or an additional spending proposal. The "Spending Growth Limitation Summary" statement from the 2003-04 Annual School District Budget Statement and the cover page of the 2003-04 Annual School District Budget Statement Supporting Documentation will reflect the district's status for capital outlay SGLA's and additional spending proposals, respectively. Additionally, districts with capital outlay spending growth limitation adjustments were provided with a memorandum from the department confirming the actual adjustment amount included in the 2003-04 budget certified for taxes.

Details on restricted appropriations/balances follow:

N.J.A.C. 6A:23-8.8(a) Adjustments to Spending Growth Limitations-Capital Outlay

A **capital outlay spending growth limitation adjustment** is supported by a formal board resolution which contains a narrative description of the capital purposes and the full amount to be included in the base budget, the need for and the amount of the adjustment, and a statement that said purposes must be completed by the end of the budget year and cannot be deferred or incrementally completed over a longer period of time. The associated appropriations are included in the base budget submitted to the voters or board of school estimate, and do not require an additional tax levy question.

N.J.S.A. 18A:7F-5d includes restrictions on the transfer of funds between capital outlay and current expense accounts for any district receiving a capital outlay spending growth limitation adjustment and also excludes the adjustment from the base amount that will be used to calculate a district's maximum permitted net budget in the subsequent year. N.J.A.C. 6A:23-8.8(a) includes restrictions that the total capital outlay portion of the budget is restricted. That is, any unspent or unencumbered funds must be appropriated for tax relief in the next budget certified for taxes. It also requires that funds budgeted within capital outlay for individual projects are restricted to their original purpose unless an exception is granted by the Commissioner due to unforeseeable conditions which result in other urgent capital outlay needs. Transfers are allowed between approved projects.

When a reservation of fund balance is established for unexpended or unencumbered funds pursuant to a capital outlay spending growth limitation adjustment, the annual independent audit shall contain a note to the financial statements indicating the reserved fund balance amount, source and the fiscal year in which it will be appropriated. The financial statements should include the amount in the general fund equity account: *reserved fund balance-legally restricted appropriations*.

N.J.A.C. 6A:23-8.5 Additional Spending Proposals

Additional spending proposals are supported by (1) a formal board resolution, "Separate Proposal Summary," (2) an advertised description of the purpose or purposes and amount, (3) a separate ballot question or questions for the associated tax levy, (4) an itemized accounting for the appropriations, and (5) a merged final budget including the base budget and approved appropriations.

N.J.A.C. 6A:23-8.5(g) requires that amounts approved by the local voters or board of school estimate or amounts restored by the municipal governing body or bodies after rejection by the local voters shall be used exclusively for the purpose(s) contained in the associated question(s). Additionally, each question must contain sufficient funds to carry out the specific purpose or purposes contained therein and no funds shall be included in the base budget for implementing such purposes. If an amount restored by a municipal governing body or bodies is insufficient to complete the project or projects as submitted, the district board of education may not use the monies for general fund purposes and shall reserve the funds for tax relief.

The district board of education is required to maintain a separate accounting of expenditures for each question. Approved amounts that remain unexpended or unencumbered at the end of the school year or amounts restored by the municipality but insufficient to complete a project shall either be anticipated as a part of the designated general fund balance of the subsequent school year budget or reserved and designated in the second subsequent school year budget.

Pursuant to *N.J.A.C.* 6A:23-8.5(f), a district board of education may not modify the base budget to execute proposed expenditures that have been rejected by the local voters, or board of school estimate and not restored by the local governing body or bodies, except as specified in *N.J.A.C.* 6A:23-8.5(j), through a donation or contribution from an external source, only if such implementation will not require funding by the district board of education in subsequent budget years.

When a reservation of fund balance is established for unexpended or unencumbered funds pursuant to an additional spending proposal, the annual independent audit shall contain a note to the financial statements indicating the reserved fund balance amount, source and the fiscal year in which it will be appropriated. The financial statements should include the amount of the reserve in general fund equity account: *reserved fund balance-legally restricted appropriations*.

Capital Reserve Account - General Fund

Auditor's Note – The material in this section impacted by the passage of P.L. 2004, c.73 (S1701) signed by the Governor July 1, 2004 and changes resulting from the amendment of *N.J.A.C.* 6A:26, Educational Facilities regulations, effective June 7, 2004. Please refer to the additional guidance and procedures in the Significant Changes section of the Introduction chapter in *The Audit Program* and to the website: <http://www.nj.gov/njded/code/title6a/chap26/amendment2/> for NJAC 6A:26.

The capital reserve account (*N.J.A.C.* 6A:26-9.1) maintained in the general fund allows a district to accumulate funds for future capital projects. A capital reserve account must have been established by board resolution, a copy of which should have been filed with the county superintendent of schools.

The Educational Facilities Construction and Financing Act (EFCFA), (*N.J.S.A.* 18A:7G –1 et seq.), was signed into law on July 18, 2000. This law provided for the establishment of a capital reserve account within 90 days of the effective date of EFCFA (by October 15, 2000), and significantly changed the rules regarding capital reserve account deposits and withdrawals. Passage of S1701 amended this section of the law to allow a capital reserve account to be established at any time and amended *N.J.S.A.* 18A:7F-7 to restrict transfers by board resolution into the account after the April 2004 election; refer to the introductory section and additional S1701 guidance issued.

The regulations (*N.J.A.C.* 6A:26-9.1 et seq.), provide procedures for capital reserve accounts (withdrawals, deposits, and transfers) and should be used to review all withdrawals during the year and all deposits up to the April 2004 election. The bulleted points below are highlights of that rule. Additional guidance on Economic Development Authority (SCC/EDA) grant accounting and use of capital reserve can be found in Section II-30.4 of this Audit Program.

- Funds in a capital reserve account must be used to implement the capital projects in the long-range facilities plan (LRFP). Withdrawals may not be used for current expense.

Capital Reserve Account - General Fund – (Continued)

- Funds in a capital reserve account in existence prior to July 18, 2000 shall be utilized for the original purpose for which the funds were deposited (*N.J.A.C. 6A:26-9.1(h)*).
- The capital reserve account balance cannot exceed the amount needed to implement the capital projects in the LRFP not met by State support (*N.J.A.C.6A:26-9.1(d)*); this amount is required to be adjusted annually in the Quality Assurance Annual Report (QAAR) (*N.J.A.C.6A:26-9.1(d)1(i)*). "All excess amounts in the capital reserve account identified in the annual audit shall be reserved and designated in the subsequent year's budget." (*N.J.A.C. 6A:26-9.1(d)1(iii)*).

Unexpended funds remaining after completion of a project:

- Capital reserve funds transferred to Capital Projects to augment a grant that are remaining after completion of a school facilities project must be returned to the capital reserve account or anticipated as part of the designated general fund balance of the subsequent school year's budget or reserved and designated in the second subsequent year budget. (*N.J.A.C. 6A:26-9.1(g)3*).
- Any unexpended capital reserve funds transferred to capital outlay remaining after completion of the school facilities project shall be returned to the capital reserve or anticipated as part of the designated general fund balance of the subsequent school year budget or reserved and designated in the second subsequent school year budget. (*N.J.A.C. 6A:26-9.1(e)3(v)*).

Deposits:

- Upon submission of the LRFP and prior to the April 2004 election, a district, by board resolution, may deposit additional funds into the capital reserve account through transfer of undesignated general fund balance or excess undesignated general fund balance anticipated in the recapitulation of balances in the budget. **Audited excess undesignated, unreserved general fund balance shall not be deposited into a capital reserve account and shall be reserved and designated in the subsequent year's budget pursuant to N.J.A.C. 6A:23-8.6.**
- Interest earned on capital reserve funds in the account, including that earned on current year increases, must automatically be placed in the account. Failure to budget the interest does not change the requirement to deposit the interest earned in the account.
- Funds may be appropriated in the annual budget; such appropriation is outside the calculation of a district's budget cap. Deposits are not made for a specific capital project unless specific voter approval was sought and received.

Withdrawals for Local Amount of School Facilities Projects:

- Withdrawals for referendum authorized school facilities projects may be made if the capital reserve use and amount is identified in the approved referendum question.
- Withdrawals for a non-referendum school facilities project may be made, by board resolution, up to 110% of the local share less excess costs. Withdrawals must be transferred to the capital projects fund and accounted for separately with the corresponding EDA grant.

Withdrawals for Excess Costs or Other Capital Projects:

Capital Reserve Account - General Fund – (Continued)

- Upon voter, board of school estimate, or capital project board approval, withdrawals may be made to fund excess costs of a school facilities project or other capital project (need a separate Statement of Purpose in the advertised budget).
- Withdrawals for referendum approved other capital projects may be made if the capital reserve use and specific amount is identified in the approved question.

Withdrawals for Debt Service:

- A district, by board resolution, may withdraw and transfer funds to the debt service fund to offset principal and interest payments for bonded projects in the LRFP.

Capital Reserve - Accounting and Recording

In addition to *N.J.A.C. 6A:26*, district staff and auditors should also reference the memorandum and attachments that were distributed to districts and copied to the public school accountants on October 19, 2001. The following are highlights from that document.

- Activity during the year is recorded in the budgetary and asset accounts, not fund balance accounts.
- Adjustments to fund balance are recorded as part of the year-end closing entries.
- The Capital Reserve Asset Account (10-116) is required to segregate the restricted capital reserve assets and is used during the year to record all activity.
- There is no requirement to open a separate bank account for this activity, however, it is practical to do so, given the requirements for recording interest.
- Interest earned on the money as it is spent down is an increase in the capital reserve asset account.

The Capital Reserve account is reported in the *Balance Sheet* (Exhibit B-1) of the governmental funds statements as both an asset (Capital Reserve Account) and Reserved Fund Balance - Capital Reserve Account. In the district-wide *Statement of Net Assets* (Exhibit A-1) the balance of this account is reported in the net assets section as “Restricted for Other Purposes” in the governmental activities column.

Auditor’s Note – The June 30, 2004 Balance Sheet should reflect the actual balance at June 30, 2004 and not increases/withdrawals included in the 2004-05 budget. The department recommends footnote disclosure in the Comprehensive Annual Financial Report.

Excess Surplus

Auditor's Note –The material in this section is impacted by the passage of P.L. 2004, c.73 (S1701) signed by the Governor July 1, 2004. Please refer to the additional guidance and procedures in the Significant Changes section of the Introduction chapter in this *Audit Program*. The calculation for regular districts (not Abbott or county vocational school districts) now uses 3% and a minimum of \$100,000 instead of \$75,000. Effected districts were notified of the amount to use for property tax relief in 2004-05 and to revise their A4F for 2004-05.

Overview

Auditors are required to perform the calculation of excess surplus at June 30th in accordance with *N.J.S.A.* 18A:7F-7, as amended by P.L. 2004, c.73 (S1701), for all regular and county vocational school districts. The audited excess surplus calculation is not applicable to Education Service Commissions (ESCs). Special services school districts are subject to an excess surplus calculation in accordance with *N.J.S.A.* 18A:46-31, as amended. This calculation will be performed by the department during the tuition rate certification process. Do not perform the excess surplus calculation or report excess surplus for a special services school district.

This calculation is required to be documented in the Auditor's Management Report. P.L. 2004, c.73 (S1701) changed the percentage used for regular non-vocational districts from 6% to 3% and the minimum from \$75,000 to \$100,000 for 2003-04. The calculation for county vocational districts is still at 6% but the minimum was changed to \$100,000.

Auditor's Note - Abbott school districts should refer to the *Abbott Addendum* for detailed instructions on how to complete the excess surplus calculations.

Excess surplus is a budget related calculation using the general fund expenditures for the fiscal year and fund balance as reported in the *Budgetary Comparison Schedule - General Fund* (Exhibit C-1) for the fiscal year. **There is only one excess surplus calculation using budgetary amounts.** The reserve for excess surplus is included in the recapitulation of fund balance presented at the end of the Exhibit C-1 schedule. These amounts are reported on the modified accrual basis with the exception of a state legally mandated revenue recognition policy that is in conflict with GASB 33. See the example on the last page of Section I-8 of this Audit Program.

Amounts included in the 2004-05 certified budget (reserved fund balance – excess surplus designated for subsequent year's expenditure) and any additional amounts reserved for appropriation in the 2005-06 original annual budget (reserved fund balance - excess surplus) must be separately reported in the Audsum diskette on the separate lines provided. The Audsum includes a warning edit for the calculation of excess surplus at June 30, 2004. Under *N.J.S.A.* 18A:7F-7d, the commissioner may withhold State aid in an amount not to exceed the audited excess undesignated general fund balances for failure to comply with the required reservation and designation of the audited excess surplus.

A calculation was performed in the 2004-05 budget software in Supporting Documentation Item 9 using projected 6/30/04 surplus balances and revised 2003-04 budgeted appropriations. The software, via the edits, forced the inclusion of the greater of the audited excess surplus at 6/30/03 or the calculated projected excess surplus at 6/30/04 in the 2004-05 budget as budgeted fund balance.

The 6/30/04 audited calculation should be based upon June 30, 2004 total general fund expenditures as reported on the General Fund Budgetary Comparison Schedule (Exhibit C-1), including applicable transfers to other funds, and net of TPAF Pension and Social Security amounts and amounts reported as

“Assets acquired under capital leases (non-budgeted).” General fund transfers to other funds not included in the general fund expenditures of the CAFR, but added to the calculation, were Transfer to Food Service fund, Transfer Capital Outlay to Capital Projects (augment EDA grant) and Transfer Capital Reserve to Capital Projects (augment EDA grant). This calculation is also adjusted for any allowable adjustments such as impact aid, sale and lease-back, extraordinary aid, and additional nonpublic transportation aid (amount over \$710), if applicable. The adjustment for extraordinary aid and additional nonpublic transportation aid is limited to the amount of revenue recognized in the current year that was not appropriated. The impact aid adjustment only applies to districts receiving impact aid and the amount that can be deducted as an adjustment generally is the amount recognized as impact aid revenue in the current year.

Districts that received additional extraordinary aid in July 2003 were required to record the revenue in 2003-04 and use this amount for property tax relief only. The 2003-04 State Budget language required districts to use the additional extraordinary aid amount to achieve property tax relief in either the 2003 or 2004 local tax year, which refers to either the 2003-04 or 2004-05 fiscal year. If the district used the additional aid for property tax relief in 2003-04, there is no adjustment to the excess surplus calculation. If the district elected to use the additional funding for 2004-05 property tax relief, at June 30, 2004, the funds created by the additional revenue will lapse to surplus and the amount will be reserved and designated for tax relief in 2004-05. Districts at the minimum tax levy in 2003-04 had no option but to record the revenue for 2003-04, let it lapse to surplus and designate it for tax relief in 2004-05. The amount which has been designated for tax relief should be reported as general fund “Reserved Fund Balance – Legally Restricted – Designated for Subsequent Year’s Expenditures”. **For those districts that elected to use the additional funding for 2004-05 property tax relief, the 2003-04 excess surplus calculation should be adjusted accordingly.**

The surplus used in the calculation is the total general fund surplus net of any reserve for encumbrances, capital, maintenance and tuition reserve amounts, and any other state/government imposed or department approved legal reserve that has not been appropriated in the 2004-05 budget and that are in compliance with S1701. Adjustments for legal reserves not appropriated in 2004-05 must be supported by a board resolution establishing the legal reserve. In most cases, this adjustment will not be applicable since most legal reserves require appropriation into the next year's budget. For any legal reserve that is not state/government imposed, the school district must seek approval from the Assistant Commissioner of Finance for use as an adjustment in the excess surplus calculation. Written approval must be received by September 30 if the district is seeking approval for the current audit year. Auditors are required to include the calculation of 6/30/04 audited excess surplus in the Auditor’s Management Report. The Department requires footnote disclosure in the CAFR for those districts where excess surplus is reflected on the general fund balance sheet.

3% Calculation – Only Regular Districts

Pursuant to P.L. 2004, c.73, (S1701) all regular districts, excluding county vocational districts, must perform the excess surplus calculation using 3% of general fund expenditures. The minimum fund balance has been raised from \$75,000 to \$100,000. Abbott districts which have applied for discretionary education opportunity aid (DEOA) in 2004-05 or received additional Abbott v. Burke state aid in 2003-04 use a different percentage as set by the state appropriations language and should refer to the Abbott Addendum for detailed guidance.

Several adjustments to the excess surplus calculation as a result of P.L. 2004, c.73 (S1701) may be required. *N.J.S.A. 18A:7F-7* as amended by P.L. 2004, c.73 prohibits post April 2004 school election transfers from surplus to either the capital or maintenance reserve accounts unless for a 2003-04 need. Those transfers that were not withdrawn and expended by June 30, 2004 for a 2003-04 need or encumbered specifically for health and safety must be reversed and considered available in the calculation

of audited excess surplus. If a transfer cannot be reversed because it has been withdrawn and expended, it must be included in the excess surplus calculation. In addition, post April 2004 school election transfers from undesignated unreserved fund balance to increase appropriations are also prohibited, unless the district could demonstrate that the transfer was for a 2003-04 T&E need and no other line item balance was available. Another adjustment to the excess surplus calculation could possible occur should a school district that was required to recertify their 2004-05 A4F, based on an estimated 3% surplus balance as calculated by the department, recertified a different amount. New lines have been added to the excess surplus calculation to capture disallowed appropriations of surplus and/or transfers to capital or maintenance reserve and disallowed district "Certifications" resulting in a different A4F recertification. Refer to the introductory section and additional S1701 guidance issued.

3% Calculation – Only Applicable Vocational Districts

Under CEIFA, county vocational districts with approved commissioner spending growth limitation adjustments included in their 2004-05 budget must perform the 3% calculation. In the 2004-05 budget there were eight possible adjustments to a regular school district's spending growth limitation that allowed the district to exceed its prior year net budget growth beyond 3%; five "statutory" and three "commissioner". Additionally, there is a temporary cap adjustment, which is treated as a Commissioner SGLA, for certain insurance and domestic security costs. County vocational school districts with approved commissioner spending growth limitation adjustments were approved with the condition that all projected June 30, 2004 general fund free balance in excess of 3% of the proposed 2004-05 general fund budget or \$100,000, whichever is greater, was appropriated.

3 % Calculation – Regular and Applicable Vocational Districts

Underestimations of surplus for the affected districts must be reserved and appropriated for property tax relief in the second subsequent original annual budget that is certified for taxes. Auditors are required to ensure that such reserves are established by the district for June 30, 2004 unreserved - undesignated general fund balances in excess of the approved level contained in the 2004-05 proposed budget.

Amounts calculated in excess of 3% that have not been appropriated in the 2004-05 original budget certified for taxes must be reported as general fund "Reserved Fund Balance - Excess Surplus" in the June 30, 2004 CAFR and appropriated in the 2005-06 budget for property tax relief. The amount which has been included in the 2004-05 budget should be reported as general fund "Reserved Fund Balance - Excess Surplus, Designated for Subsequent Year's Expenditures". Note disclosures should describe the nature of the excess surplus and the amount budgeted in the 2004-05 original budget certified for taxes and the amount reserved for the subsequent year budget.

Information is being preloaded in the Audsum on unreserved, undesignated fund balances using the 3% calculation for county vocational school districts which applied for a Commissioner SGLA in their 2004-05 budget. A related warning edit is included.

The following discussion and the example on the following page illustrate the proper calculation of the 3% excess surplus for Regular Non-Abbott and County Vocational Districts (Abbott Districts should refer to the Abbott Addendum):

Example: The school district had total general fund expenditures (from exhibit C-1 of CAFR) of \$7,500,000. Included in the general fund expenditures were "On-Behalf State Aid Payments" (TPAF Pension & Social Security) of \$405,000, Assets Acquired Under Capital Lease of \$100,000 and a disallowed post April 2004 election appropriation of fund balance of \$82,000. General fund transfers to other funds not included in the general fund expenditures of the CAFR, but added to the calculation, were, Transfer to Food Service of \$65,000, Transfer from Capital Outlay to Capital Projects (augment EDA grant) of \$10,000 and Transfer from Capital Reserve to Capital Projects (augment EDA grant) of \$12,000.

The district received \$3,000 in federal impact aid revenue during 2003-04. In the June 30, 2004 balance sheet the district had the following (refer to the fund balance classification example on the following page), \$44,900 reserved for encumbrances; \$9,000 legally restricted from an unexpended 2002-03 additional spending proposal and required to be designated in the 2004-05 budget for property tax relief; \$48,000 reserved June 30, 2003 excess surplus required to be designated for property tax relief in the 2004-05 budget; \$200,000 unreserved and designated in the 2004-05 budget; and \$250,000 unreserved/undesignated **prior to the adjustment for the disallowed appropriation of surplus after the April 2004 election of \$82,000 per S1701, prior to a \$7,000 adjustment as a result of a different A4F recertification amount without proper supporting documentation per S1701 and prior to calculating June 30, 2004 excess surplus.** Please refer to the additional guidance and procedures in the Significant Changes section of the Introduction chapter for details on S1701.

2003-04 Total General Fund Expenditures	\$ 7,500,000 (a)	
Increased by Applicable Operating transfers:		
Transfer to Food Service Fund	65,000 (b)	
Transfer from Capital Outlay to Capital Projects	10,000 (b)	
Transfer from Capital Reserve to Capital Projects	12,000 (b)	
Decreased by:		
On-Behalf State Aid Payments	(405,000)	
Assets Acquired Under Capital Leases	(100,000)	
Disallowed Expenditures per S1701	(82,000) (c)	
Adjusted General Fund Expenditures	7,000,000	
Applicable Excess Surplus Percentage	<u>x .03</u>	
Subtotal	210,000	
Increased by:		
Allowable Adjustment	<u>3,000 (d)</u>	
Maximum Unreserved/Undesignated Fund Balance		\$ 213,000
Total General Fund fund balance (June 30, 2004)	\$ 551,900	
Decreased by:		
Reserved for Encumbrances	(44,900)	
Legally Restricted – Designated for Subsequent Year’s Expenditures	(9,000) (e)	
Excess Surplus – Designated for Subsequent Year’s Expenditures	(48,000) (e)	
Unreserved -- Designated for Subsequent Year’s Expenditures	<u>(200,000) (e)</u>	
Total Unreserved/Undesignated Fund Balance	250,000	
Increased by:		
Disallowed Surplus Transfer per S1701	<u>82,000 (f)</u>	
		<u>332,000</u>
Reserved – Excess Surplus (June 30, 2004)		<u>\$ 119,000 (g)</u>
Recapitulation of Excess Surplus as of June 30, 2004		
Reserved Excess Surplus – Designated for Subsequent Year’s Expenditures (Audsum line 10025)		48,000 (h)
Reserved Excess Surplus (Audsum line 10024 equals lines i and j)		119,000 (i)
Reserved for 2005-06 per S1701 (Audsum line 10024 equals lines i and j)		<u>7,000 (j)</u>

Total Excess Surplus

\$ 174,000

- (a) Total General Fund Expenditures obtained from June 2004 CAFR Exhibit C-1 Budgetary Comparison Schedule – General Fund.
- (b) Include operating transfer expenditures that relate to the general fund but were required to be maintained in another fund. Do not include general fund transfers to Capital Reserve or Debt Service Fund, or Facilities Grant transfer to Special Revenue.
- (c) Deduct disallowed expenditures as a result of a post April 2004 appropriation of surplus for a non 2003-04 T&E need; refer to the introductory section and additional S1701 guidance issued.
- (d) This adjustment line is to be utilized for Impact Aid, Sale and Lease-back, Extraordinary Aid and Additional Nonpublic School Transportation Aid, if applicable.
- (e) The aggregate of \$257,000 represents the total amount of General Fund fund balance appropriated in the 2004-05 General Fund budget.
- (f) Increase fund balance for disallowed expenditures as a result of a post April 2004 appropriation of surplus for a non 2003-04 T&E need; refer to the introductory section and additional S1701 guidance issued.
- (g) If this amount is negative enter zero (-0-).
- (h) Represents surplus generated in 6/30/03 and budgeted in 2004-05
- (i) Represents surplus generated in 6/30/04 prior to inclusion with line (j) (will be required to be budgeted in 2005-06).
- (j) Represents adjustment for a different A4F recertification amount without proper supporting documentation per S1701 (will be required to be required to be budgeted in 2005-06).

6% Calculation

Under CEIFA, county vocational districts that do not have an approved commissioner spending growth limitation adjustment included in their 2004-05 budget must perform the 6% calculation.

Amounts calculated in excess of 6% that have not been appropriated in the 2004-05 original budget certified for taxes must be reported as general fund “Reserved Fund Balance - Excess Surplus” in the June 30, 2004 CAFR and appropriated in the 2005-06 budget for property tax relief. The amount which has been included in the 2004-05 budget should be reported as general fund "Reserved Fund Balance - Excess Surplus, Designated for Subsequent Year's Expenditures". Note disclosures should describe the nature of the excess surplus and the amount budgeted in the 2004-05 original budget certified for taxes and the amount reserved for the subsequent year budget.

For districts with expenditures equal to or less than \$100 million, any unreserved/undesignated general fund surplus amounts in excess of the greater of 6% of general fund expenditures or \$100,000 (after allowable adjustments) is excess surplus. For districts with expenditures greater than \$100 million any unreserved/undesignated general fund surplus amounts greater than the sum of 3% of general fund expenditures in excess of \$100 million plus \$6,000,000 and allowable adjustments is excess surplus. Any excess surplus amount must be reserved for appropriation in the 2005-06 original certified budget.

As a reminder, county vocational districts with approved commissioner spending growth limitation adjustments in 2004-05 must perform the 3% calculation described above.

Fund Balance Classifications

Auditor's Note – The material in this section is impacted by the passage of P.L. 2004, c.73 (S1701), signed by the Governor July 1, 2004. Please refer to the Significant Changes section of the Introduction chapter of *The Audit Program* for additional guidance and procedures related to the new legislation. Also, Auditors should refer to the *Abbott Addendum* for items that specifically relate to Abbott school districts.

The proper presentation of fund balance is an important reporting issue. Districts should use the fund balance classifications reported at the end of the *General Fund Budgetary Comparison Schedule* (Exhibit C-1) for purposes of calculating excess surplus. Fund balance in the Budgetary Comparison Schedules reflects the modified actual basis with the exception of the last state payment and should be grouped under two main categories – reserved and unreserved.

Fund balance in the governmental funds *Balance Sheet* (Exhibit B-1) reflects the modified accrual basis and should be grouped under two main categories – reserved and unreserved. In the accrual basis *Statement of Net Assets* (A-1), there are three classifications of net assets: Invested in capital assets, net of related debt, Restricted net assets (with a line item for each fund in which the net assets are restricted), and Unrestricted. Auditors and district staff should refer to GASB 34, paragraphs 30 – 37 for further clarification of these classifications.

Auditor's Note – No appropriation of surplus after June 30, 2004 is to be reflected in the June 30, 2004 balance sheet as designated for subsequent year's expenditures. The department recommends footnote disclosure in the CAFR.

Reserved fund balance classification should only be for encumbrances relating to the audit year or for state or other government imposed legally reserved fund balance restrictions. Beginning in 2003-04, all other legal reserves require Departmental review and approval. The request for approval should state the amount, source, purpose and legal basis for the reserve (i.e., why the funds are not available for appropriation in the subsequent year) and the fiscal year in which it will be appropriated. School districts should submit requests to the Assistant Commissioner of Finance no later than September 30 if approval is required for the audit period under review.

Fund balance - reserved for:

- The **reserve for encumbrances** represents that amount of fund balance related to orders issued in the current year that will be honored in the subsequent year. In general, for other than construction projects, that liquidation must be made within 60 to 90 days of year-end to be a valid reserve at June 30th. This should not include accounts payable, since those orders were charged as expenditures in the current year and should be included in the balance sheet as a liability. Separate lines are provided in the Audsum diskette for the reserve for encumbrances at June 30th for the general fund and capital projects fund. The department issued a Hotline on September 16, 2003 providing additional guidance on auditor reviews of encumbrances. Districts should not be encumbering goods and services that relate to the subsequent year. The Hotline is reproduced in Section I-8 of this *Audit Program*.
- The **capital reserve account** maintained in the general fund allows a district to accumulate funds for future capital projects. EFCFA was signed into law on July 18, 2000 and significantly affected the transactions in the capital reserve accounts, which has been affected again by the passage of S1701. Passage of S1701 allows a capital reserve account to be established at any time and amended *N.J.S.A. 18A:7F-7* to restrict transfers by board resolution into the account after the

April 2004 election; refer to the introductory section and additional S1701 guidance issued. See previous section for specific procedures affecting capital reserve accounting. A separate line is provided in the Audsum diskette for this reserve account.

- The **maintenance reserve account** is used to accumulate funds for the required maintenance of a facility in accordance with the EFCFA (*N.J.S.A.18A:7G-9*). The passage of S1701 also impacts deposits into maintenance reserve and auditors should refer to the introductory section and additional S1701 guidance issued. EFCFA requires that upon district completion of a school facilities project, the district must submit a plan for the maintenance of that facility. Auditors and district staff should refer to the regulations, *N.J.A.C.6A:26A*, for further guidance. A separate line is provided in the Audsum for this reserve account.
- The **reserve for tuition** represents a year end fund balance classification to reserve unrestricted fund balance for a foreseeable future tuition adjustment pursuant to *N.J.A.C. 6A:23-3.1(f)*. This reserve is only applicable for formal sending /receiving relationships between two district boards of education established under subchapter 3 of the business services code pursuant to *N.J.S.A. 18A:38-19*. It does not pertain to tuition certification or amounts owed to private schools for the handicapped. It is also not applicable to county vocational districts. The tuition reserve enables the district to reserve fund balance for an anticipated large tuition adjustment for the current contract year. The major contributing factor for tuition adjustments and use of the reserve is a significant change from estimated to the actual enrollment. The maximum amount that may be restricted at year end is 10 percent of the estimated tuition cost of the contract year. Upon certification of rates in the third year following the contract year, full appropriation of the applicable year's reserve must be liquidated and any remaining balance related to that year must be reserved and budgeted for tax relief. The account should be shown in the reserved fund balance equity section as reserve fund balance – tuition reserve. Separate lines are provided in the Audsum data collection for each applicable year's reserve.
- The **reserved fund balance-legally restricted account**, which is shown in the reserved fund balance equity section, is used to report that portion of the general fund surplus that is legally reserved for specific purposes. In general, funds are legally restricted only when constraints placed on the use are externally imposed by creditors (such as through debt covenants), grantors, contributors or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. This would include reserves established for register audit recoveries and restricted appropriations such as unspent funds from:
 - 1) Approved separate proposals as outlined in *N.J.A.C. 6A:23-8.5*
 - 2) Capital outlay for a district with a capital outlay spending growth limitation adjustment in 2003-04 as outlined in *N.J.A.C. 6A:23-8.8*
 - 3) Sale/lease-back reserve *N.J.S.A. 18A:7F-7(e)*
 - 4) Extraordinary aid for 2002-03 per guidance given in a letter issued to school districts by the Department on July 25, 2003. Additional extraordinary aid may only be designated for tax relief in either 2003-04 or 2004-05. If the district is using it for tax relief in 2004-05, then this amount must be reflected as reserved fund balance-legally restricted at June 30, 2004.

Beginning in 2003-04, legal reserves that are for anything other than state imposed or other government imposed legal restriction must be approved by the Assistant Commissioner of Finance. Examples of state imposed legal restrictions include audited excess surplus, unspent separate proposals, unspent capital outlay resulting from an SGLA, ASSA audit recoveries, legally established capital, maintenance and tuition reserve accounts, and a reserve established for the sale leaseback of textbooks in the year the proceeds are realized. An example of other legally government imposed legal restrictions include court ordered judgments. The request for approval

should be submitted by the school district to the Assistant Commissioner of Finance by September 30, 2004 if approval is requested for the audit year. The request should state the purpose and legal basis for the reserve (e.g., the specific “constraint imposed on the use by external parties or by laws or regulations of other governments). Approval will only be granted for those other legal obligations that are in conformity with GAAP.

The notes to the financial statements must contain a discussion of all legally restricted balances, including the amount, source and fiscal year in which it will be appropriated. A separate line is provided in the Audsum data collection for legal reserves - general fund. These balances, if determined prior to the adoption of the budget, should have been anticipated in the 2004-05 “School District Budget Statement” and line 1660, “Amount Budgeted in FY 2004-05” in column 6, General Fund (Reserved) Legal Reserves of the Recapitulation of Balances. Amounts not anticipated in the 2004-05 budget must be shown as a legal reserve in the June 30th CAFR and appropriated in the 2005-06 budget.

- **The reserved fund balance – excess surplus – designated for subsequent year’s expenditures** represents the audited excess surplus from the prior year budgeted in the subsequent year. Under CEIFA, any June 30, 2003 audited excess surplus that was appropriated in the 2004-05 original budget certified for taxes must be reported as reserved general fund balance in the CAFR. Audsum line 10025 has been provided for reserved fund balance - excess surplus – designated for subsequent year’s expenditures. The following discussion and example illustrates the proper presentation of excess surplus – designated for subsequent year’s expenditures.

Example: The school district had audited excess surplus as of June 30, 2003 of \$48,000 and an unexpended 2002-03 additional spending proposal of \$9,000. The district appropriated \$257,000(a) in the 2002-03 original budget (comprised of the \$9,000 unexpended 2002-03 additional spending proposal; \$48,000 audited excess surplus from June 30, 2003; and \$200,000 of unreserved/designated surplus). As of June 30, 2004 the district had generated an additional \$119,000(b) of excess surplus and was required to appropriate an additional \$7,000 as a result of the recertification of a different 2004-05 A4F amount per S1701 without proper supporting documentation (c). The \$119,000 (calculated in the excess surplus example) and the \$7,000 (disallowed “Certification” as noted in the excess surplus example) are required to be appropriated in the 2005-06 original budget for property tax relief and should also be combined on line 10024 of the June 30, 2004 audsum data collection.

	<u>June 30, 2004</u>	<u>June 30, 2003</u>
Fund Balances:		
Reserved:		
For Encumbrances	\$ 44,900	\$ 50,000
Legally Restricted – Unexpended Additional Spending Proposal		9,000
Legally Restricted – Designated for Subsequent Year’s Expenditures	9,000 (a)	
Excess Surplus	119,000 (b)	48,000
Excess Surplus – Designated for Subsequent Year’s Expenditures	48,000 (a)	
Reserved for 2005-06 per S1701	7,000 (c)	
Unreserved:		
Designated for Subsequent Year’s Expenditures	200,000 (a)	235,000
Undesignated	124,000	415,000
	<u>\$ 551,900</u>	<u>\$ 757,000</u>

- The **reserved fund balance – excess surplus** represents audited excess surplus generated in the current audit year. Any amount calculated as excess surplus generated during the year ended June 30, 2004 that has not been appropriated in the 2004-05 original budget certified for taxes must be reported as reserved general fund balance-excess surplus in the CAFR. Appropriate footnote disclosure should be made in the notes to the financial statements including the amount and an explanation that the amount represents surplus determined to be reserved and designated in the 2005-06 budget during the audited excess calculation performed at June 30th in accordance with *N.J.S.A. 18A:7F-7*. Audsum line 10024 is used to report reserved fund balance - excess surplus plus any amount resulting from a disallowed “Certification” as noted in the excess surplus calculation. Please note that the Audsum includes a warning edit for the calculation of excess surplus at June 30, 2004. Auditors are required to include the calculation of excess surplus in the Auditor’s Management Report.
- The **reserved fund balance – adult education programs** is a required separate restricted account. *N.J.S.A. 18A:50-6* requires that surplus generated from the excess of receipts from donations, tuition fees, or from any source other than local taxation over the actual cost of the maintenance and operation of the district’s adult education program remain in a separate account for the restricted fund balance. The account should be shown in the reserved fund balance equity section as reserved fund balance - adult education programs. A separate line is provided in the Audsum diskette for reserved for adult education programs - general fund.

Fund Balance – Unreserved

All other fund balance is considered **unreserved** and is considered in the excess surplus calculation. Districts may reflect management’s intent for use of the unreserved fund balance as separate lines in the equity section of the balance sheet under the heading unreserved fund balance. Each designation should be explained in the notes to the financial statements. All other unreserved fund balance should be presented as unreserved - undesignated. The amount of unreserved fund balance that has been included in the upcoming year’s general fund budget as budgeted fund balance should be reported in the unreserved fund balance equity section as **designated for subsequent year’s expenditure**. If the budgeted fund balance amount included in the certified budget contains an amount that has been shown in the reserved fund balance section of the balance sheet (refer to the example on the previous page), do not include it as part of the unreserved designated for subsequent year’s expenditure amount. **Separate lines are provided in the Audsum data collection for unreserved - undesignated general fund balances and unreserved fund balance that is designated for subsequent year's expenditure. Include on the designated fund balance line only those amounts which were included in the 2004-05 certified budget as budgeted fund balance on line 121 that has not already been included on a reserved fund balance line. Include in the unreserved - undesignated line all other unreserved fund balance.**

SECTION II – SPECIFIC COMPLIANCE
FUND 20 – SPECIAL REVENUE FUND

TPAF Reimbursement

N.J.S.A. 18A:66-90 requires that each local board of education reimburse the state for the employer share of pensions, group life insurance, FICA and other benefits of the Teachers' Pension and Annuity Fund (TPAF) for TPAF members carrying out and paid from federally funded programs.

Districts were given specific guidance in a hotline dated June 29, 1993 on accruing a liability for the TPAF Pension and Social Security related to salaries charged to federal grants. The reimbursement must be made by the September 30th following the fiscal year end. Auditors are required to certify the accuracy of the reimbursement via their signature on the reimbursement form submitted by the district with the actual reimbursement. If submission of the reimbursement form is performed prior to the completion of audit procedures, the form may initially be submitted without the required auditor signature and a revised form reflecting the auditor signature may be subsequently submitted.

Auditors should also include in their audit procedures a test of the biweekly reimbursements filed electronically with the department for all TPAF employees.

Restricted State Aids

Overview

Under CEIFA four restricted state formula aids, Demonstrably Effective Program Aid (DEPA), Early Childhood Program Aid (ECPA), Distance Learning Network Aid (DLNA), and Instructional Supplement Aid (ISA), were enacted and are accounted for in the special revenue fund. These restricted formula aids may only be expended for allowable expenditures in accordance with the type of aid received. Beginning in 2003-04, DLNA funding was combined into a general fund Consolidated Aid category. The only potential available resource in 2003-04 for DLNA is from a prior period carryover. The district wide actual totals of these restricted formula aids are to be included in the CAFR, Special Revenue Fund – *Combining Schedule of Revenues and Expenditures*, Exhibit E-1, on the budgetary basis. The 2003-04 budget allowed for anticipated carryover for these four restricted formula aids. The following is a description and the reporting requirements for these aids.

Currently under GAAP, there are no fund balances related to grant revenues in excess of expenditures in the special revenue fund since the revenue recognition criteria in the Special Revenue Fund requires that any excess revenue be reported as deferred revenue. This also applies to the four restricted state aids (ECPA, DEPA, DLNA, ISA) being accounted for in the special revenue fund. However, there may be a deficit fund balance in the GAAP statements for these four restricted state aid classifications due to the non-recognition of the revenue for the last state aid payment. See discussion below.

Auditor's Note – Auditors should review The Abbott Addendum for items that specifically relate to Abbott districts.

Last State Aid Payment

Districts prepare their budgets based on state aid revenue paid over twenty cash payments. During the fiscal year 2002-03, the State determined that the last payment would not be paid until July of the subsequent year. GASB 33 requires that the provider government and recipient government recognize a payable and receivable in the same fiscal period. P.L 2003,c.97, approved June 24, 2003, requires that districts include the last state aid payment as revenue for budgetary purposes only. Beginning in 2002-03, there may be a year end difference between the revenue for GAAP reporting and revenue for budgetary comparisons for any fiscal year in which the last state aid payment is deferred to the subsequent fiscal

year. Treatment of the last payment for 2003-04 will be the same as 2002-03. The district CAFR must include a reconciliation from the budgetary revenue to the GAAP revenue. See chapters II-8 and III-6 for further discussion.

I. Demonstrably Effective Program Aid

Effective August 4, 2002, the rules to effectuate CEIFA were revised and brought into the Finance and Business Services Code, *N.J.A.C.* 6A:23, Subchapter 5. *N.J.A.C.* 6A:23-5.5 provides rules for demonstrably effective programs (DEP), strategies or services pursuant to *N.J.S.A.* 18A:7F-18. Such programs include but are not limited to alternative schools, community schools, class size reduction programs, additional programs that are recommended or revised by the Commissioner; and specific supplemental programs shown to be beneficial for districts with high concentrations of students from low-income families including health services, comprehensive guidance counseling, programs to ensure that schools are safe and drug free, summer school and outreach for dropouts. Effective July 1, 2001, districts may no longer transfer ECPA to DEPA.

Beginning with fiscal year 2003-04, districts receiving DEPA are no longer required to maintain separate detailed accounting by programs and services (strategy) but must still report DEPA by school. Districts receiving DEPA must maintain the budget to actual status of the appropriations by school location. DEPA allocations for 2003-04 were not recalculated but were based on 2001-02 school level DEPA allocations which were generated on a revenue basis. Some districts' 2003-04 DEPA allocations by school will not agree with the total DEPA revenue. Those districts have the flexibility to allocate any additional amounts to any existing school that currently generated DEPA or to a new school. If a district opened a new school, the district should have developed a new operational plan for the school receiving the funds. The district should provide auditors with documentation of department approval of the new operational plan if the district has allocated DEPA to a new school. School district auditors should reference the memo issued by the Office of Fiscal Policy and Planning to School Business Administrators on February 6, 2003 on Budgeting for DEPA if the DEPA allocations by school have been revised. Districts that fail to use DEPA as required by *N.J.A.C.* 6A:23-5.5 shall be subject to recession of aid and additional monetary penalties as established by the Commissioner.

Deferred Revenue/Carryover

DEPA must be utilized in the schools that generated the aid, and the carryover of deferred DEPA funds must remain at the school that generated the carryover balances. DEPA revenue that was not expended or encumbered by June 30th of the budget year are classified as deferred revenue in the financial accounts and statements of the district and added to the revenue of a subsequent year budget in one of three ways:

1. When identified prior to the preparation of the subsequent year budget and incorporated therein;
2. Appropriated during the subsequent year with the approval of the Commissioner or his designee; or
3. Retained as deferred revenue until the second subsequent year budget.

A 2002-2003 Carryover Funds form was required to be utilized by districts to request use of the 2002-2003 DEPA balances or to adjust prior estimates (a copy of this form with instructions was distributed via departmental memoranda). A district that anticipated carryover balances when preparing its 2003-04 budget may have been required to amend its approved plan if the estimated amount anticipated was incorrect. Districts were required to have the use of DEPA carryovers approved by board resolution. There is no requirement to track the carryover funds in separate revenue or expenditure accounts by year. Once approved, these funds become current year revenue and expenditures and the calculation of deferred revenue amounts at June 30, 2004 will not require delineation as to year of origin. A district board of education shall use the carryover at the location that generated the aid and must be used only for approved demonstrably effective programs, strategies or services pursuant to *N.J.A.C.* 6A:23-5.5(a)1.

Transfers/Revisions

A transfer notification form is required for all DEPA revisions to notify the department of the plan amendments and in some cases to document the approval of the transfer. Minor revisions, which are defined as those which do not jeopardize the accomplishment of the objective nor shift more than a cumulative 10 percent of the money allocated for the program/strategy, do not require prior written approval. Substantive revisions which require prior written approval include the elimination of a strategy or reallocation of more than a cumulative 10 percent of the money allocated to the strategy/program. Either the chief school administrator or school business administrator must sign the transfer forms. Copies of the forms are kept on file at the district and with the department and are available for audit.

Auditor's Note – Auditors should review the State Aid/Grants Compliance Supplement for suggested audit procedures
<http://www.nj.gov/njded/finance/fp/audit/0304/>.

Auditor's Note – Auditors should review The Abbott Addendum for items that specifically relate to Abbott districts.

For non-Abbott districts, the transfer notification form is submitted to the county superintendent who is responsible for review and, if necessary, approval. Substantive revisions require prior written approval. The transfer form is returned to the district indicating approval of the plan revision in the space provided. Acknowledgment of receipt of minor transfers/revisions is made through the return of the transfer notification form to the district. The county office monitors the district transfer approval submissions for non-Abbott districts.

Expenditure of Funds

Revenue and expenditures for DEPA are reported in the Other Supplementary Information section of the CAFR on the budgetary basis in the E-2 series. The district wide actual results from the school schedules are reported on the budgetary basis in the *Combining Schedule of Revenues and Expenditures Special Revenue Fund – Budgetary Basis*, Exhibit E-1, and are added in with other special revenue fund activity for the Budgetary Comparison Schedule – Special Revenue Fund, Exhibit C-2. For the special revenue fund column of the Balance Sheet (B-1), encumbrances for this aid as well as other special revenue funds are reported as deferred revenue since the Balance Sheet is a GAAP basis statement. Encumbrances are a reconciling item in the Required Supplementary Information (RSI), Budgetary Comparison Schedule, Note to RSI which reconciles the budgetary information to the GAAP statements.

Districts were advised by letter dated January 17, 2003, that beginning in 2003-04 they were no longer required to itemize DEP by program/strategy for the budget. An itemized accounting setting forth the precise allocation of DEPA funds (i.e., price per unit and quantities, hourly rate and number of hours worked in the case of stipends) is still required to support each DEP activity listed in the DEPA Operational Plan for each school. Districts were required to budget a total cost for each strategy and provide detailed budgets by school. Beginning with the 2003-04, the financial statement reporting will reflect this change and show detail by school but not by program/strategy. The sample schedules in this chapter have been modified to illustrate the change.

DEPA must still be spent at the school that generated the aid. Districts are required to prepare DEPA budgetary schedules using the minimum outline for the special revenue fund. The calculation of actual carryover is presented by location. In order to reflect the actual carryover as of June 30, 2004, the district must calculate unbudgeted DEPA funds at each school along with June 30, 2004 unexpended/unencumbered funds for that school.

The bottom portion of each DEPA budgetary schedule includes a summary of location totals. The total DEPA deferred revenue per this schedule must agree to the total of the deferred revenue reported on

Schedule B, *Schedule of Expenditures of State Financial Assistance*, under DEPA after adjustment for the last state aid payment. Any DEPA carryover must be carried over for expenditure in the location that generated the revenue. These statements are the responsibility of the district.

Auditor's Note – No negative carryover balances (i.e. overexpenditures) are to be reflected in the individual school locations. If overexpenditures occur, they should be reclassified and included as a finding in the *Auditor's Management Report*.

A list of DEP programs utilized in 2003-04 is on page 123 of the 2003-04 *Budget Guidelines*, and descriptions of these programs are included in Appendix C of that document. Auditors should also refer to page 44 of the Budget Guideline. The appropriations are summarized under three functions, (1) instruction, (2) support, and (3) facilities acquisition and construction services, at the object level following the minimum outline for the special revenue fund. A separate line is used for the Contribution to Charter Schools. (Note that pursuant to CEIFA, 2000-01 was the last year in which ECPA could be used for DEP and educationally meritorious programs.)

Audit procedures to be performed should include verifying that the funds were expended only for approved demonstrably effective programs, strategies or services pursuant to *N.J.A.C. 6A:23-5.5* and are in compliance with the department approved DEP school-level operational plans. Auditors should verify that the required Carryover Funds form was filed and that the proper revisions were made for June 30, 2003 carryovers by location. Auditors should verify if the 2003-04 DEPA plan was amended to reflect audited carryover balances, on a test basis that the district has completed the transfer notification form for DEPA transfers and where appropriate obtained prior written approval. Minor transfers, that do not jeopardize the accomplishment of an objective or shift more than 10% of the money allocated for the program/strategy, do not require prior written approval. Substantive revisions that include the elimination of a strategy or reallocation of more than 10% require prior written approval. See also the State Aid/Grant Compliance Supplement available for the applicable year on the NJ Treasury (OMB) web site for suggested audit procedures.

All instances of non-compliance must be included in the Auditor's Management Report, including if the district is not tracking expenditures by location.

PREPARING THE DEMONSTRABLY EFFECTIVE PROGRAM RESTRICTED AID (DEPA) SCHEDULES

The *Demonstrably Effective Program Aid Schedule of Expenditures – Budgetary Basis (E-2 series)* is prepared from the district records and is the responsibility of the district. The district wide summary schedule is to be included in the *Combining Schedule of Revenues and Expenditures, Special Revenue Fund – Budgetary Basis (E-1)*.

A separate schedule must be prepared for each location as well as a district-wide schedule. Beginning with 2003-04, the location schedules are no longer presented by program code. The format of the schedule has been redesigned for 2003-04 eliminating the program code presentation, but maintaining the calculation of deferred revenue by location. This schedule is to be prepared on the budgetary basis where "actual" equals the 2003-04 expenditures plus encumbrances at June 30, 2004. These encumbrances must be liquidated within 60 to 90 days.

At the bottom of each school schedule is a calculation of the 2003-04 Available & Unbudgeted funds and the Actual Carryover as of June 30, 2004.

Line (1) represents the 2003-04 DEPA allocation for that school. Note: In instances where original aid allocations by school included closed schools or omitted schools, department approval would have been necessary to change the by school allocation and should be on file at the district. This amount can be obtained from the district's SA1NET and is a budgetary amount.

Line (2) represents the actual audited DEPA carryover as of June 30, 2003 at that location. Carryover balances may have been anticipated in the 2003-04 original budget. Districts were instructed to utilize a Carryover Funds form to request use of June 30, 2003 balances or to adjust prior estimates. Copies of the approved request should be on file at the district.

Line (3) represents the total 03-04 DEPA funds available for the 03-04 budget (the sum of Lines 1&2).

Line (4) represents the amount the district included in its DEPA budget for the fiscal year 2003-04 including approved carryover amounts and contribution to charter schools.

Line (5) represents the difference between Line (3) and Line (4). If a district did not revise its budgeted original allocation (if different) or revise its budgeted June 30, 2003 carryover, then this amount is considered Available and Unbudgeted as of June 30, 2004. Line (5) is then considered a component of the Actual Carryover – DEPA as of June 30, 2004.

Line (6) represents 2003-04 budgeted DEPA (Line 4) less the “total actual” for the school (unexpended/unencumbered DEPA).

Line (7) is the total of Lines (5) and (6).

Line (8) can be found in the 2004-05 Supporting Documentation 16c for that location from the 2004-05 certified budget. If the actual carryover (Line 7) is less than the budgeted amount then the district must file an amended 2004-05 DEPA operational plan with the department. If the actual carryover is greater than the budgeted carryover then the district has the option of filing an amended DEPA operational plan or can retain the additional carryover amount not originally budgeted as deferred revenue until 2005-06.

A district-wide summary schedule is to be prepared once a schedule is completed for each location. The “actual” column is the sum of the “total actual” columns from the location schedules. The “budgeted” column can be obtained from the district's 2003-04 certified Detailed Appropriations lines 13410 – 13690 adjusted for any revised allocations, approved carryovers and/or transfers. The total “budgeted” expenditures reported on the district-wide summary must equal the sum of the total budgeted DEPA expenditures (Line 4) from the location statements.

The bottom of the district-wide summary is a roll up of the carryover calculations from the location statements. The amount reported as Total 2003-04 DEPA Allocation must agree to the total DEPA entitlement reported on the 2003-04 State Aid printouts (SA1a) dated February 6, 2003.

The Actual DEPA Carryover (line 8) is for budget purposes and will differ from the June 30, 2004 DEPA deferred revenue reported on Schedule B, *Schedule of State Financial Assistance* by amount of the 2003-04 last state aid payment. The Schedule of State Financial Assistance will not include the amount of the last state aid payment but instead will include this amount in the MEMO column under “Budgetary Receivable”. The last state aid payment adjustment is required because the revenue recognition of the last state aid payment in 2003-04 is not in conformity with GAAP based on GASB 33; however, districts are legally required to recognize the revenue of the last state aid payment for fiscal year 2003-04 in their budgetary schedules. The Schedule of State Financial Assistance does not include the last payment for 2002-03 (received in July 2003) in the beginning balance deferred revenue, but does include it in the cash received column.

Please note that on the following sample statements every possible account is listed. This is an optional format; districts may list only those accounts that are applicable. In addition, the line (#) references on the sample statements should not appear on the actual statement in the CAFR. The four individual schools presented include different scenarios to assist in the preparation of these statements.

**Anytown School District
Special Revenue Fund
Schedule of Demonstrably Effective Program Aid
Budgetary Basis
For the Fiscal Year Ended June 30, 2004**

District -Wide Totals

	<u>Budgeted</u>	<u>Actual</u>	<u>Variance</u>
EXPENDITURES:			
Instruction:			
Salaries of Teachers	\$ 1,121,000	\$1,118,479	\$ 3,021
Other Salaries of Instruction	15,000	14,040	960
Purchased Professional and Technical	1,800	1,800	-
Other Purchased Services (400-500 series)	60,500	60,007	493
General Supplies	137,750	136,838	912
Textbooks	74,750	74,300	450
Other Objects	115,000	114,917	83
Total Instruction	<u>1,526,300</u>	<u>1,520,381</u>	<u>5,919</u>
Support Services:			
Salaries of Other	45,000	44,445	555
Other Salaries	3,500	3,500	-
Personal Services – Employee Benefits	151,500	150,860	640
Purchased Professional – Educational	13,225	13,072	153
Other Purchased Professional Services	-	-	-
Purchased Technical	3,200	3,190	10
Rentals	1,250	1,000	250
Travel	1,500	1,375	125
Supplies & Materials	35,000	14,486	20,514
Total support services	<u>254,175</u>	<u>231,928</u>	<u>22,247</u>
Facilities acquisition and const. services:			
Instructional Equipment	233,750	232,403	1,347
Noninstructional Equipment	600	550	50
Total facilities acquisition and const.	<u>234,350</u>	<u>232,953</u>	<u>1,397</u>
Contribution to charter schools	<u>70,000</u>	<u>70,000</u>	<u>-</u>
Total expenditures	<u>\$2,084,825</u>	<u>\$2,055,262</u>	<u>\$ 29,563</u>

Notes to Preparer

a) Prepare all individual DEPA locations prior to completing this exhibit.

b) GAAP deferred revenue is the 2003-04 actual carryover less the last state aid payment adjusted for prior year/current year encumbrances. If the result is negative, the district has a deficit for the program.

SUMMARY OF LOCATION TOTALS

Total 2003-04 DEPA Allocation	\$ 2,080,000	(1)
Actual DEPA Carryover (June 30, 2003)	97,238	(2)
Total DEPA Funds Available for 2003-04 Budget	2,177,238	(3)
Less: 2003-04 Budgeted DEPA (Including Prior year budget carryover)	(2,084,825)	(4)
Available & Unbudgeted DEPA Funds as of June 30, 2004	92,413	(5)
Add: 2003-04 Unexpended DEPA	29,563	(6)
2003-04 Actual Carryover - DEPA	\$ 121,976	(7)
2003-04 DEPA Carryover Budgeted in 2004-05	\$ 106,190	(8)

**Anytown School District
Special Revenue Fund
Schedule of Demonstrably Effective Program Aid
Budgetary Basis
For the Fiscal Year Ended June 30, 2004**

School A

	<u>Budgeted</u>	<u>Actual</u>	<u>Variance</u>
EXPENDITURES:			
Instruction:			
Salaries of	\$ 92,000	\$ 90,661	\$ 1,339
Other Salaries of	-	-	-
Purchased Professional and Technical Services	1,800	1,800	-
Other Purchased Services (400-500 series)	14,000	13,694	306
General Supplies	8,000	7,934	66
Textbooks	6,000	5,800	200
Other Objects	-	-	-
Total Instruction	<u>121,800</u>	<u>119,889</u>	<u>1,911</u>
Support Services:			
Salaries of Other	-	-	-
Other Salaries	-	-	-
Personal Services – Employee Benefits	-	-	-
Purchased Professional – Educational Services	-	-	-
Other Purchased Professional Services	-	-	-
Purchased	3,200	3,190	10
Rentals	1,250	1,000	250
Travel	1,500	1,375	125
Supplies &	12,500	12,276	224
Total support	<u>18,450</u>	<u>17,841</u>	<u>609</u>
Facilities acquisition and const. services:			
Instructional	14,000	14,000	-
Noninstructional	-	-	-
Total facilities acquisition and const. services	<u>14,000</u>	<u>14,000</u>	<u>-</u>
Contribution to charter schools	<u>-</u>	<u>-</u>	<u>-</u>
Total expenditures	<u>\$ 154,250</u>	<u>\$ 151,730</u>	<u>\$ 2,520</u>

Notes to Preparer

a) Budgeted 2003-04 funds do not equal DEPA funds available – resulting in Unbudgeted DEPA funds at 6/30/04.

b) Total unexpended & unencumbered as of 6/30/04 is \$2,520

c) Total actual carryover as of 6/30/04 is the unexpended balance of \$2,520 plus the unbudgeted \$65,020 for a total of \$67,540

d) Since the actual carryover for 2003-04 exceeds the 2003-04 carryover budgeted in 2004-05, the district should consider revising its 2004-05 DEPA budget.

CALCULATION OF BUDGET & CARRYOVER

Total 2003-04 DEPA Allocation	\$ 175,000	(1)
Actual DEPA Carryover (June 30, 2003)	<u>44,270</u>	(2)
Total DEPA Funds Available for 2003-04 Budget	219,270	(3)
Less: 2003-04 Budgeted DEPA (Including		
Prior year budget carryover)	<u>(154,250)</u>	(4)
Avail. & Unbudgeted DEPA Funds as of June 30, 2004	65,020	(5)
Add: 2003-04 Unexpended DEPA	<u>2,520</u>	(6)
2003-04 Actual Carryover - DEPA	<u>\$ 67,540</u>	(7)
2003-04 DEPA Carryover Budgeted in 2004-05	<u>\$ 52,000</u>	(8)

**Anytown School District
Special Revenue Fund
Schedule of Demonstrably Effective Program Aid
Budgetary Basis
For the Fiscal Year Ended June 30, 2004**

School B

	<u>Budgeted</u>	<u>Actual</u>	<u>Variance</u>
EXPENDITURES:			
Instruction:			
Salaries of Teachers	\$ 524,500	\$ 524,385	\$ 115
Other Salaries of	15,000	14,040	960
Purchased Professional and Technical	-	-	-
Other Purchased Services (400-500 series)	18,500	18,435	65
General Supplies	53,750	53,433	317
Textbooks	32,750	32,535	215
Other Objects	-	-	-
Total Instruction	<u>644,500</u>	<u>642,828</u>	<u>1,672</u>
Support Services:			
Salaries of Other	-	-	-
Other Salaries	3,500	3,500	-
Personal Services – Employee Benefits	62,500	62,500	-
Purchased Professional – Educational	-	-	-
Other Purchased Professional Services	-	-	-
Purchased Technical	-	-	-
Rentals	-	-	-
Travel	-	-	-
Supplies & Materials	-	-	-
Total support	<u>66,000</u>	<u>66,000</u>	<u>-</u>
Facilities acquisition and const. services:			
Instructional	35,000	34,799	201
Noninstructional	-	-	-
Total facilities acquisition and const.	<u>35,000</u>	<u>34,799</u>	<u>201</u>
Contribution to charter schools	<u>59,000</u>	<u>59,000</u>	<u>-</u>
Total expenditures	<u>\$ 804,500</u>	<u>\$ 802,627</u>	<u>\$ 1,873</u>

Notes to Preparer

a) Budgeted 2003-04 funds do not equal DEPA funds available, resulting in Unbudgeted DEPA funds at 6/30/04.

b) Total amount of funds unexpended/ unnumbered as of 6/30/04 is \$1,873.

c) Total Actual Carryover as of 6/30/04 is the unexpended balance of \$1,873 plus the unbudgeted \$373 for a total of \$2,246.

d) Since the Actual Carryover for 2003-04 exceeds the 2003-04 carryover budgeted in 2004-05, the district should consider revising its 2004-05 DEPA budget.

CALCULATION OF BUDGET & CARRYOVER

Total 2003-04 DEPA Allocation	\$ 800,000	(1)
Actual DEPA Carryover (June 30, 2003)	<u>4,873</u>	(2)
Total DEPA Funds Available for 2003-04 Budget	804,873	(3)
Less: 2003-04 Budgeted DEPA (Including Prior year budget carryover)	<u>(804,500)</u>	(4)
Avail. & Unbudgeted DEPA Funds as of June 30, 2004	373	(5)
Add: 2003-04 Unexpended DEPA	<u>1,873</u>	(6)
2003-04 Actual Carryover - DEPA	<u>\$ 2,246</u>	(7)
2003-04 DEPA Carryover Budgeted in 2004-05	<u>\$ 2,000</u>	(8)

Ex. 2-c

**Anytown School District
Special Revenue Fund
Schedule of Demonstrably Effective Program Aid
Budgetary Basis
For the Fiscal Year Ended June 30, 2004**

School C

	Budgeted	Actual	Variance
EXPENDITURES:			
Instruction:			
Salaries of Teachers	\$ 270,000	\$ 269,250	\$ 750
Other Salaries of	-	-	-
Purchased Professional and Technical Services	-	-	-
Other Purchased Services (400-500 series)	-	-	-
General Supplies	76,000	75,471	529
Textbooks	36,000	35,965	35
Other Objects	-	-	-
Total Instruction	<u>382,000</u>	<u>380,686</u>	<u>1,314</u>
Support Services:			
Salaries of Other	45,000	44,445	555
Other Salaries	-	-	-
Personal Services – Employee Benefits	37,500	37,204	296
Purchased Professional – Educational Services	13,225	13,072	153
Other Purchased Professional Services	-	-	-
Purchased Technical	-	-	-
Rentals	-	-	-
Travel	-	-	-
Supplies & Materials	22,500	2,210	20,290
Total support services	<u>118,225</u>	<u>96,931</u>	<u>21,294</u>
Facilities acquisition and const. Services.			
Instructional Equipment	136,000	135,272	728
Noninstructional	600	550	50
Total facilities acquisition and const. services	<u>136,600</u>	<u>135,822</u>	<u>778</u>
Contribution to charter	<u>11,000</u>	<u>11,000</u>	<u>-</u>
Total expenditures	<u>\$ 647,825</u>	<u>\$ 624,439</u>	<u>\$ 23,386</u>

Notes to Preparer

a) Budgeted 2003-04 funds do not equal DEPA funds available, resulting in Unbudgeted DEPA funds at 6/30/04.

b) Total unexpended / unencumbered as of 6/30/04 is \$23,386.

c) Total Actual Carryover as of 6/30/04 is the unexpended balance of \$23,386 plus the unbudgeted \$10,736 for a total of \$34,122.

d) Since the Actual Carryover is less than the budgeted carryover in 2004-05, the district must revise its budget.

CALCULATION OF BUDGET & CARRYOVER

Total 2003-04 DEPA Allocation	\$ 627,000	(1)
Actual DEPA Carryover (June 30, 2003)	31,561	(2)
Total DEPA Funds Available for 2003-04 Budget	658,561	(3)
Less: 2003-04 Budgeted DEPA (Including Prior year budget carryover)	(647,825)	(4)
Avail. & Unbudgeted DEPA Funds as of June 30, 2004	10,736	(5)
Add: 2003-04 Unexpended DEPA	23,386	(6)
2003-04 Actual Carryover - DEPA	\$ 34,122	(7)
2003-04 DEPA Carryover Budgeted in 2004-05	\$ 45,000	(8)

Ex. 2-d

**Anytown School District
Special Revenue Fund
Schedule of Demonstrably Effective Program Aid
Budgetary Basis
For the Fiscal Year Ended June 30, 2004**

School D

	<u>Budgeted</u>	<u>Actual</u>	<u>Variance</u>
EXPENDITURES:			
Instruction:			
Salaries of Teachers	\$ 235,000	\$ 234,183	\$ 817
Other Salaries of Instruction	-	-	-
Purchased Professional and Technical Services	-	-	-
Other Purchased Services (400-500 series)	28,000	27,878	122
General Supplies	-	-	-
Textbooks	-	-	-
Other Objects	115,000	114,917	83
Total Instruction	<u>378,000</u>	<u>376,978</u>	<u>1,022</u>
Support Services:			
Salaries of Other	-	-	-
Other Salaries	-	-	-
Personal Services – Employee Benefits	51,500	51,156	344
Purchased Professional – Educational Services	-	-	-
Other Purchased Professional Services	-	-	-
Purchased Technical	-	-	-
Rentals	-	-	-
Travel	-	-	-
Supplies & Materials	-	-	-
Total support services	<u>51,500</u>	<u>51,156</u>	<u>344</u>
Facilities acquisition and const. services:			
Instructional Equipment	48,750	48,332	418
Noninstructional	-	-	-
Total facilities acquisition and const. services	<u>48,750</u>	<u>48,332</u>	<u>418</u>
Contribution to charter schools	<u>-</u>	<u>-</u>	<u>-</u>
Total expenditures	<u>\$ 478,250</u>	<u>\$ 476,466</u>	<u>\$ 1,784</u>

Notes to Preparer

a) Budgeted 2003-04 funds do not equal DEPA funds available, resulting in unbudgeted DEPA funds at 6/30/04.

b) Total unexpended/unencumbered as of 6/30/04 is \$1,784.

c) Total Actual Carryover as of 6/30/04 is the unexpended balance of \$1,784 plus the unbudgeted \$16,284 for a total of \$18,068.

d) Since the Actual Carryover for 2003-04 exceeds the 2003-04 carryover budgeted in 2004-05, the district should consider revising its 2004-05 DEPA budget.

CALCULATION OF BUDGET & CARRYOVER

Total 2003-04 DEPA Allocation	\$ 478,000	(1)
Actual DEPA Carryover (June 30, 2003)	16,534	(2)
Total DEPA Funds Available for 2003-04 Budget	494,534	(3)
Less: 2003-04 Budgeted DEPA (Including Prior year budget carryover)	(478,250)	(4)
Avail. & Unbudgeted DEPA Funds as of June 30, 2004	16,284	(5)
Add: 2003-04 Unexpended DEPA	1,784	(6)
2003-04 Actual Carryover - DEPA	\$ 18,068	(7)
2003-04 DEPA Carryover Budgeted in 2004-05	\$ 12,000	(8)

II. Early Childhood Program Aid

Pursuant to *N.J.S.A. 18A:7F-16*, districts with high concentrations of low income students shall establish preschool and full day kindergarten for all four and five year-olds by the 2001-02 school year and shall maintain them thereafter. (Note: This deadline was accelerated for Abbott districts under the May 21, 1998 Abbott v. Burke decision.) County vocational schools and limited purpose regional school districts eligible for ECPA receive their aid as DEPA rather than ECPA. Districts which have fully implemented preschool and full-day kindergarten are required to continue the full operation of such programs for as long as they receive ECPA. Beginning in the year 2001-02 school year, districts can only use ECPA (new or deferred revenue) for preschool, full-day kindergarten and other early childhood programs and services. At June 30, 2004 no district should report a balance in ECPA capital reserve.

ECPA revenue that was not expended or encumbered by June 30th of the budget year shall be classified as deferred revenue in the financial accounts and statements of the district and added to the revenue of a subsequent year budget in one of the three ways previously outlined in the beginning of the section. Also, the aforementioned *Deferred Revenue/Carryover* and *Transfers/Revisions* restrictions described under DEPA apply to ECPA.

As part of the June 30th CAFR districts are required to prepare a budgetary basis statement for ECPA expenditures using the minimum outline required for the special revenue fund, including a calculation of the unbudgeted ECPA funds along with June 30, 2004 unexpended/unencumbered funds. It should be noted that although the district was required to submit a detailed budget by program, there is no requirement to track ECPA expenditures by program. Accordingly, the ECPA statement of expenditures included in the CAFR is prepared at the summary level, not by program. This statement is the responsibility of the district.

Auditors should verify that the funds were expended only for approved ECPA programs pursuant to *N.J.S.A. 18A:7F-16* and are in compliance with the department approved ECPA Program Description and operational plan. Auditors should verify that the required Carryover Funds form was filed and that the proper revisions were made for June 30, 2003 carryover. Auditors should verify that the 2003-04 ECPA plan was amended to reflect audited carryover balances, test that the district has completed the transfer notification form for transfers and where appropriate obtained prior written approval. See the State Aid/Grant Compliance Supplement for the applicable year available on the NJ Treasury (OMB) web site for further audit procedures.

PREPARING THE EARLY CHILDHOOD PROGRAM RESTRICTED AID (ECPA) SCHEDULE

The Schedule of Early Childhood Program Aid is prepared from the district records and is the responsibility of the district. This schedule is to be included in the Special Revenue Fund section of Other Supplementary Information. All districts eligible for ECPA were required to track ECPA expenditures in the special revenue fund using the uniform grant project budget statement coding structure.

The format of the schedule was designed to provide an audit trail of the actual versus budgeted expenditures as well as calculate deferred revenue. This statement is to be prepared on the budgetary basis where “actual” equals the 2003-04 expenditures plus encumbrances at June 30, 2004. These encumbrances must be liquidated within 60 to 90 days. The “budgeted” amounts can be obtained from the district’s 2003-04 certified Detailed Appropriations lines 13010 – 13300 adjusted for any approved carryovers and/or transfers.

At the bottom of the statement is a calculation of the 2003-04 Available & Unbudgeted funds and the Actual Carryover as of June 30, 2004.

Line (1) represents the total 2003-04 ECPA allocation. This amount can be obtained from the district's SA1NET and is a budgetary amount.

Line (2) represents the actual audited ECPA carryover as of June 30, 2003. Carryover balances may have been anticipated in the 2003-04 original budget. Districts were instructed to utilize a Carryover Funds form to request use of June 30, 2003 balances or to adjust prior estimates. Copies of the approved request should be on file at the district.

Line (3) represents the budgeted transfer from the general fund to fund ECPA programs. This amount can be obtained from Line 511 (Account 20-5200) in the 2003-04 certified advertised revenues.

Line (4) represents the total 2003-04 ECPA funds available for the 2003-04 budget (sum of lines 1-3).

Line (5) represents the amount the district included in its ECPA budget for the fiscal year 2003-04, including contribution to charter schools.

Line (6) represents the difference between Line (4) and Line (5). If a district did not revise its budgeted original allocation (if different) or revise its budgeted June 30, 2003 carryover, then this amount is considered Available and Unbudgeted as of June 30, 2004. Line (6) is then considered a component of the Actual Carryover – ECPA as of June 30, 2004.

Line (7) represents 2003-04 budgeted ECPA (Line 5) less the “total actual” for the program. This amount represents the 2003-04 unexpended/unencumbered ECPA.

Line (8) is the total Actual Carryover – ECPA as of June 30, 2004 and is the sum of Lines (6) and (7).

Line (9) can be found in the 2004-05 Supporting Documentation 15b from the 2004-05 certified budget. If the actual carryover (Line 8) is less than the budgeted amount then the district must file an amended 2004-05 ECPA program budget with the department. If the actual carryover is greater than the budgeted carryover then the district has the option of filing an amended ECPA program budget or can retain the additional carryover amount not originally budgeted as deferred revenue until 2005-06.

The Actual ECPA Carryover (line 8) is for budget purposes and will differ from the June 30, 2004 ECPA deferred revenue reported on Schedule B, *Schedule of State Financial Assistance* by the amount of the 2003-04 last state aid payment. The Schedule of State Financial Assistance will not include the amount of the last state aid payment but instead will include this amount in the MEMO column under “Budgetary Receivable”. The last state aid adjustment is required because the revenue recognition of the last state aid payment in 2003-04 is not in conformity with GAAP revenue recognition based on GASB 33; however, districts are legally required to recognize the revenue of the last state aid payment for fiscal year 2003-04 in their budgetary schedules. The Schedule of State Financial Assistance does not include the last payment for 2002-03 (received in July 2003) in the beginning balance deferred revenue, but does include it in the cash received column.

Please note that on the following example statement every possible account is listed. This is an optional format. Districts may list only those accounts that are applicable. In addition, the line (#) references on the example statements should not appear on the actual statements in the CAFR.

Ex. E-3

**Anytown School District
Special Revenue Fund
Schedule of Early Childhood Program Aid
Budgetary Basis
For the Fiscal Year Ended June 30, 2004**

	Total		
	Budgeted	Actual	Variance
EXPENDITURES:			
Instruction:			
Salaries of Teachers	\$ 808,954	\$ 743,268	\$65,686
Other Salaries of Instruction	253,474	252,365	1,109
Other Purchased Services (400-500 series)	325,000	315,000	10,000
General Supplies	110,500	82,500	28,000
Total Instruction	1,497,928	1,393,133	104,795
Support Services:			
Personal Services – Employee Benefits	142,072	136,589	5,433
Purchased Professional – Educational Services	25,000	5,689	19,311
Total support services	167,072	142,278	24,794
Facilities acquisition and const. services:			
Instructional Equipment	15,000	10,000	5,000
Noninstructional Equipment	-	-	-
Total facilities acquisition and const. services	15,000	10,000	5,000
Contribution to charter schools	20,000	20,000	-
Total expenditures	\$1,700,000	\$1,565,411	\$134,589

CALCULATION OF BUDGET & CARRYOVER

Note to Preparer

a) Since the 2003-04 Actual Carryover is more than the amount budgeted in 2004-05, the district should consider revising its 2004-05 ECPA budget.

Total 2003-04 ECPA Allocation	\$ 1,642,835	(1)
Actual ECPA Carryover (June 30, 2003)	134,980	(2)
Budgeted Transfer from the General Fund 2003-04	42,000	(3)
Total ECPA Funds Available for 2003-04 Budget	1,777,815	(4)
Less: 2003-04 Budgeted ECPA (Including Prior year budget carryover)	(1,700,000)	(5)
Available & Unbudgeted ECPA Funds as of June 30, 2004	77,815	(6)
Add: 2003-04 Unexpended ECPA	134,589	(7)
2003-04 Actual Carryover ECPA	\$ 212,404	(8)
2003-04 ECPA Carryover Budgeted in 2004-05	\$ 130,000	(9)

III. Distance Learning Network Aid (DLNA) and Instructional Supplement Aid (ISA)

DLNA and ISA which is not expended or encumbered by June 30th of the budget year shall be classified as deferred revenue in the financial accounts and statements and shall be expended in the subsequent year budget for allowable costs. Specific approval for the use of DLNA and ISA carryover is not required. Both of these restricted formula aids are accounted for in the special revenue fund.

Beginning in 2003-04, DLNA funding was not granted but instead combined into a general fund Consolidated Aid category. The only available resource in 2003-04 for DLNA restricted funding is from a prior period carryover. DLNA carryover must be accounted for under the support and facilities acquisition and construction services functions. Intended uses of these funds were provided in supporting documentation Item 17. All expenditures from DLNA carryover must support distance learning activities and services, to assist all pupils in achieving New Jersey's Core Curriculum Content Standards. Allowable expenditures are included in the *State Aid/Grant Compliance Supplement*.

ISA must be accounted for under the instruction and support functions. Intended uses of these funds were provided in supporting documentation Item 18. All expenditures must provide supplemental services for students from low-income families, the same purpose as DEPA. Expanded coding of expenditures is not required by program.

The calculation of deferred revenue as of June 30, 2004 must include consideration of the audited June 30, 2003 deferred revenue carried over and included in the 2003-04 funds available for expenditure in 2003-04. Deferred revenue as of June 30, 2004 may be carried over and expended in 2004-05 for allowable costs as designated above. As stated above, specific approval for the use of DLNA and ISA carryover is not required.

Any unexpended or unencumbered DLNA or ISA must be reported as deferred revenue in the financial statements and in Schedule B, *Schedule of Expenditures of State Financial Assistance*. As part of the June 30th CAFR districts are required to prepare budgetary statements using the minimum outline required for the special revenue fund which must include the 2003-04 budgeted carryover for DLNA and ISA. This statement is the responsibility of the district. *The State Aid/Grant Compliance Supplement* should be referenced for compliance requirements and suggested audit procedures.

PREPARING THE DISTANCE LEARNING NETWORK AID (DLNA) RESTRICTED AID SCHEDULE

The Schedule of Distance Learning Network Aid is prepared from the district records and is the responsibility of the district. This schedule is to be included in the Special Revenue Fund section of Other Supplementary Information. All districts that had Distance Learning Network Aid carryover funds from a prior year were required to track these expenditures in the special revenue fund using the uniform grant project budget statement coding structure.

The format of the schedule was designed to provide an audit trail of the actual versus budgeted expenditures as well as calculate deferred revenue. This schedule is to be prepared on the budgetary basis where "actual" equals the 2003-04 expenditures plus encumbrances at June 30, 2004. These encumbrances must be liquidated within 60 to 90 days. The "budgeted" amounts are to be taken from the district's 2003-04 certified budget on lines 13710 – 13900 of the Detailed Appropriations adjusted for any approved carryovers and/or transfers.

At the bottom of the schedule is a calculation of the 2003-04 Available & Unbudgeted funds and the Actual Carryover as of June 30, 2004.

Line (1) represents the actual audited DLNA carryover as of June 30, 2003.

Line (2) represents the amount the district included in its DLNA budget for the fiscal year 2003-04.

Line (3) represents the difference between Line (1) and Line (2). If a district did not revise its budgeted June 30, 2003 carryover, then this amount is considered Available and Unbudgeted as of June 30, 2004. Line (3) is then considered a component of the Actual Carryover – DLNA as of June 30, 2004

Line (4) represents 2003-04 budgeted DLNA (Line 4) less the “total actual” for the program. This amount represents the unexpended/unencumbered DLNA.

Line (5) is the total Actual Carryover – DLNA as of June 30, 2004 and is the sum of Lines (3) and (4).

Line (6) can be found in the district’s 2004-05 certified budget on line 423 of the Advertised Revenue Section. All carryover must be expended in subsequent years for allowable program expenditures.

The Actual DLNA Carryover (line 5), if any, is the amount of unused DLNA carryover from the previous year, since there were no DLNA allocations for 2003-04. Any carryover should agree to the June 30, 2004 amount reported on Schedule B, *Schedule of State Financial Assistance*. The *Schedule of State Financial Assistance* does not include the last payment for 2002-03 (received in July 2003) in the beginning balance deferred revenue, but does include it in the cash received column.

Please note that on the following example statement every possible account is listed. This is an optional format. Districts may list only those accounts that are applicable.

Ex. E-4

Anytown School District
Special Revenue Fund
Statement of Distance Learning Network Aid
Budgetary Basis
For the Fiscal Year Ended June 30, 2004

	Total		
	Budgeted	Actual	Variance
EXPENDITURES:			
Support Services:			
Salaries of Other Professional Staff	\$ 17,300	\$ 17,300	\$ -
Other Purchased Services (400-500 series)	-	-	-
Supplies & Materials	19,305	19,305	-
Total support services	36,605	36,605	-
Facilities acquisition and const. services:			
Instructional Equipment	-	-	-
Noninstructional Equipment	-	-	-
Total facilities acquisition and const. services	-	-	-
Contribution to charter schools	-	-	-
Total expenditures	\$36,605	\$36,605	\$ -

CALCULATION OF BUDGET & CARRYOVER

Notes to Preparer

a) The schedule should reflect the prior year DLNA carryover since DLNA was not a form of state aid for 2003-04. Carryover from previous years, if any, should be included.

b) In the unusual situation of a district not utilizing carryover, the schedule should reflect continued carryover as DLNA.

Actual DLNA Carryover (June 30, 2003)	\$ 36,605	(1)
Less: 2003-04 Budgeted Prior Year Carryover of DLNA	(36,605)	(2)
Available & Unbudgeted DLNA Funds as of June 30, 2004	-	(3)
Add: 2003-04 Unexpended DLNA	-	(4)
2003-04 Actual Carryover DLNA	-	(5)
2003-04 DLNA Carryover Budgeted in 2004-05	\$ -	(6)

PREPARING THE INSTRUCTIONAL SUPPLEMENT AID (ISA) RESTRICTED AID SCHEDULE

The *Schedule of Instructional Supplement Aid* (ISA) is prepared from the district records and is the responsibility of the district. This schedule is to be included in the Special Revenue Fund section of Other Supplementary Information. All districts eligible for ISA were required to track these expenditures in the special revenue fund using the uniform grant project budget statement coding structure.

The format of the schedule was designed to provide an audit trail of the actual versus budgeted expenditures as well as calculate deferred revenue. This schedule is to be prepared on the budgetary basis where “actual” equals the 2003-04 expenditures plus encumbrances at June 30, 2004. These encumbrances must be liquidated within 60 to 90 days. The “budgeted” amounts are to be taken from the district’s 2003-04 certified budget on lines 14010 – 14250 of the Detailed Appropriations adjusted for any approved carryovers and/or transfers.

At the bottom of the schedule is a calculation of the 2003-04 Available & Unbudgeted funds and the Actual Carryover as of June 30, 2004.

Line (1) represents the 2003-04 ISA allocation. This amount can be obtained from the district’s SA1NET and is a budgetary amount.

Line (2) represents the actual audited ISA carryover as of June 30, 2003.

Line (3) represents the total 03-04 ISA funds available for the 03-04 budget (the sum of Lines 1 & 2).

Line (4) represents the amount the district included in its ISA budget for the fiscal year 2003-04, including the contribution to charter schools.

Line (5) represents the difference between Line (3) and Line (4). If a district did not revise its budgeted original allocation (if different) or revise its budgeted June 30, 2003 carryover, then this amount is considered Available and Unbudgeted as of June 30, 2004. Line (5) is then considered a component of the Actual Carryover – ISA as of June 30, 2004.

Line (6) represents 2003-04 budgeted ISA (Line 4) less the “total actual” for the program. This amount represents the unexpended/unencumbered ISA.

Line (7) is the total Actual Carryover – ISA as of June 30, 2004 and is the sum of Lines (5) and (6).

Line (8) can be found in the district’s 2004-05 certified budget on line 424 of the Advertised Revenue Section. All carryover must be expended in subsequent years for allowable program expenditures.

The Actual ISA Carryover (line 7) is for budget purposes and will differ from the June 30, 2004 ISA deferred revenue reported on Schedule B, *Schedule of State Financial Assistance* by the amount of the 2003-04 last state aid payment. The Schedule of State Financial Assistance will not include the amount of the last state aid payment but instead will include this amount in the MEMO column under “Budgetary Receivable”. The last state aid adjustment is required because the revenue recognition of the last state aid payment in 2003-04 is not in conformity with GAAP revenue recognition based on GASB 33; however, districts are legally required to recognize the revenue of the last state aid payment for fiscal year 2003-04 in their budgetary schedules. The Schedule of State Financial Assistance does not include the last payment for 2002-03 (received in July 2003) in the beginning balance deferred revenue, but does include it in the cash received column. Please note that on the following example statement every possible account is listed. This is an optional format. Districts may list only those accounts that are applicable.

Ex. E-5

**Anytown School District
Special Revenue Fund
Schedule of Instructional Supplemental Aid
Budgetary Basis
For the Fiscal Year Ended June 30, 2004**

	Total		
	Budgeted	Actual	Variance
EXPENDITURES:			
Instruction:			
Other Purchased Services (400-500 series	\$ 356,000	\$ 315,698	\$ 40,302
General Supplies	126,000	75,245	50,755
Total instruction	482,000	390,943	91,057
Support services:			
Other Purchased Professional Services	52,000	42,895	9,105
Total support services	52,000	42,895	9,105
Contribution to charter schools	23,000	23,000	-
Total expenditures	\$557,000	\$456,838	\$100,162

CALCULATION OF BUDGET & CARRYOVER

Note to Preparer

a) Since the 2003-04 actual carryover is greater than the amount budgeted in 2004-05, the district should consider revising its 2004-05 budget.

Total 2003-04 ISA Allocation	\$ 550,000	(1)
Actual ISA Carryover (June 30, 2003)	118,162	(2)
Total DLNA Funds Available for 2003-04 Budget	668,162	(3)
Less: 2003-04 Budgeted ISA (Including Prior year budget carryover)	(557,000)	(4)
Available & Unbudgeted ISA Funds as of June 30, 2004	111,162	(5)
Add: 2003-04 Unexpended ISA	100,162	(6)
2003-04 Carryover ISA	\$ 211,324	(7)
2003-04 ISA Carryover Budgeted in 2004-05	\$ 100,000	(8)